

*Pricing framework for the
accommodation sector of South
Africa: a focus on supply*

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DECLARATION WITH REGARD TO INDEPENDENT WORK

I, Engelina du Plessis, identity number 7501190002089 and student number 10811281, do hereby declare that this research submitted to the North West University, for the Phd study: **Pricing Framework for the Accommodation Sector in South Africa: a focus on supply**, is my own independent work; and complies with the Code of Academic Integrity, as well as other relevant policies, procedures, rules and regulations of the North West University; and has not been submitted before to any institution by myself or any other person in fulfillment (or partial fulfillment) of the requirements for the attainment of any qualification.

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*This study is especially dedicated to my late father.
“You will always be my inspiration, and forever hold a
special place in my heart, I miss you every day!”*

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ABSTRACT

Future growth in the tourism industry will need to take factors influencing the competitiveness of a destination into consideration. Price is an important factor in competitiveness and is considered by some researchers to be the most important when arguing that price is the factor that generates revenue. However, price is a very complex issue and is determined by a variety of demand and supply factors. These factors also differ from industry to industry. Hence managers and entrepreneurs are faced with a difficult task, and without necessary guidelines in the pricing of accommodation, "price following" could be a result and may jeopardise the competitive advantage, when one takes the current global financial crisis into consideration.

In view of the above it was the aim of this study to develop a pricing framework for the South African accommodation market. To achieve this aim, the following objectives were set: to determine the factors that play a role in the pricing of accommodation establishments; to determine the relationship between price and grading in the accommodation sector; and lastly to establish pricing guidelines for graded hotels and guesthouses in South Africa. In order to generate proper data, a survey was conducted at various South African accommodation establishments that were obtained from the databases of the three major associations in the accommodation sector, namely SATSA (South African Tourism Service Association), FEDHASA (Federated Hospitality Association of Southern Africa) and TGCSA (Tourism Grading Council of South Africa). 2288 questionnaires were sent out via e-mail and 247 completed questionnaires were received back.

A principal component factor analysis was performed. This resulted in ten factors, namely environmental qualities, amenities, image, management factor, positioning, quality service factor, infrastructure service factor, location, marketing and product quality factor. The main results revealed that the most important factors in pricing are service quality, image and product quality. To investigate the relationship between grading and price, Spearman rank correlation was conducted and the results show a strong correlation between the grading of the accommodation and the price. This confirms that managers also consider "stars" as symbols of the type of quality which they can use to communicate a "value for money" experience when tourists choose

accommodation at a certain price. In order to provide pricing guidelines for South African managers and entrepreneurs, the significance of mean price differences of star classification was tested and hotels and guesthouses were compared using an independent *t*-test. The results show a significant difference between the prices of hotels and guesthouses and especially in the five star categories.

The results of this study can be used to assist managers in pricing and in obtaining a better competitive position in the industry, with revised management structures and marketing campaigns. The relationship between grading and price highlights the importance of grading in the minds of tourists. The research further suggests a twenty percent discrepancy between prices of the different star categories, indicating healthy competition between industry players. These pricing guidelines can sustain competitiveness with growing profitability. The most important contribution lies in the development of a pricing framework using different approaches and methods from the supply side in South Africa and can therefore be seen as a benchmark in the South African accommodation market research.

The framework could assist managers and entrepreneurs to achieve the primary objectives, namely to generate a profit, establish a competitive advantage and sustain both. The three forces contribute to the constant working between entrepreneurship, effective management and providing value for money. Training of tourism managers on the pricing process, price factors, price strategies, grading, demands of domestic and international tourists and quality control is important to establish a competitive price for sustainability.

OPSOMMING

Toekomstige groei in die toerismebedryf sal faktore wat die mededingendheid van 'n bestemming beïnvloed, in berekening moet bring. Prys is 'n belangrike faktor betreffende mededingendheid en word deur sommige navorsers beskou as die allerbelangrikste wanneer in gedagte gehou word dat prys die faktor is wat inkomste genereer. Prys is egter 'n uiters komplekse aangeleentheid en word bepaal deur 'n verskeidenheid vraag- en aanbodfaktore. Genoemde faktore verskil ook van bedryf tot bedryf. 'n Moeilike taak staar bestuurders en entrepreneurs dus in die gesig, en sonder die nodige riglyne ten opsigte van die prysvasstelling van verblyf, kan "prysnavolging" daaruit ontstaan en kan dit die mededingende voordeel op die spel plaas indien die huidige wêreldwye finansiële krisis in gedagte gehou word.

In die lig van bostaande was die doel van hierdie studie om 'n prysvasstellingsraamwerk vir die Suid-Afrikaanse akkommodasie mark te ontwikkel. Om hierdie doel te kan bereik is die volgende doelwitte gestel: om die faktore te bepaal wat 'n rol speel by die prysvasstelling van verblyfplekke; om die verhouding tussen prys en gradering in die akkommodasie sektor te bepaal; en laastens om prysvasstellingsriglyne vir gegradeerde hotelle en gastehuse in Suid-Afrika te bepaal. Om geskikte data te genereer is ondersoek by verskeie Suid-Afrikaanse verblyfplekke ingestel wat van die databasisse van die drie hoof verenigings in die akkommodasie sektor verkry is, naamlik SATSA (South African Tourism Service Association), FEDHASA (Federated Hospitality Association of Southern Africa) and TGCSA (Tourism Grading Council of South Africa). 2 288 vraelyste is via e-pos gestuur en 247 ingevulde vraelyste is terug ontvang.

'n Hoofkomponent-faktoranalise is uitgevoer. Dit het tien faktore opgelewer, naamlik omgewingseienskappe, geriewe, beeld, bestuursaspekte, plasing, diensgehalte, infrastruktuurdienste, ligging, bemerking en produkgehalte. Die hoofresultate het aan die lig gebring dat die belangrikste faktore in prysvasstelling juis diensgehalte, beeld en produkgehalte is. Om die verhouding tussen gradering en prys te ondersoek is Spearman rangkorrelasie uitgevoer, en die resultate dui op 'n sterk korrelasie tussen die

gradering van die verblyf en die prys. Dit bevestig die feit dat ook bestuurders “sterre” as simbole van die gehalte/ graad beskou wat hulle kan gebruik om ’n “waarde vir geld”-ervaring aan te dui wanneer toeriste verblyf teen ’n bepaalde prys kies. Om prysvasstellingsriglyne vir Suid-Afrikaanse bestuurders en entrepreneurs te voorsien is die betekenisvolheid van gemiddelde prysverskille van ster-klassifisering getoets en hotelle en gastehuse vergelyk deur ’n onafhanklike *t*-toets te gebruik. Die resultate dui op ’n betekenisvolle verskil tussen die pryse van hotelle en gastehuse en veral in die vyfster-kategorieë.

Die resultate van hierdie studie kan aangewend word om bestuurders te help met prysvasstelling en om ’n beter mededingende posisie in die bedryf te bekom, met hersiene bestuurstrukture en met bemarkingsveldtogte. Die verhouding tussen gradering en prys beklemtoon die belangrikheid van gradering in die gedagtes van toeriste. Die navorsing stel verder ’n twintigpersent-diskrepanse tussen pryse van die onderskeie ster-kategorieë voor, wat dui op gesonde mededinging tussen rolspelers in die bedryf. Hierdie prysvasstellingsriglyne kan mededingendheid met toenemende winsgewindheid in stand hou. Die belangrikste bydrae lê by die ontwikkeling van ’n prysvasstellingsraamwerk deur ander benaderings en metodes van die kant van aanbod in Suid-Afrika toe te pas en kan dus beskou word as ’n voldoeningskriterium in die Suid-Afrikaanse akkommodasie mark-navorsing.

Genoemde raamwerk kan bestuurders en entrepreneurs help om die primêre doelwitte te bereik, naamlik om ’n wins te genereer, ’n mededingende voorsprong te vestig en beide te onderhou. Hierdie drie kragte dra by tot die volgehoue wisselwerking tussen entrepreneurskap, doeltreffende bestuur en die oplewer van waarde vir geld. Die opleiding van toerismebestuurders in die prysvasstellingsproses, prysfaktore, prysstrategieë, gradering, eise van binnelandse en buitelandse toeriste en gehaltebeheer is belangrik om ’n mededingende prys vir volhoubaarheid vas te stel.

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CHAPTER 1

INTRODUCTION AND PROBLEM STATEMENT



1.1. INTRODUCTION

Dwyer, Forsyth and Rao (2002:328) explain that competitiveness of a destination as a general concept comprises price differentials, with exchange rate movements, productivity levels of various components in the tourism industry and qualitative factors affecting the attractiveness of the destination. These factors make the task of management in a global competitive world more difficult. Stevens (1992:44) also describes competitiveness as the ability of a tourism product or service to attract its share of tourists. It is also a concept according to which the bottom-line indicator is value for money. In the accommodation/hospitality sector, the notion of value for money primarily refers to the relation between price, quantity and quality. The tourism product must therefore be perceived as being of a quality similar to or better than that of other countries, and its price must be perceived as attractive. In this context, information on tourists' perceptions of prices and quality and on the role price plays in tourist behaviour is exceptionally important (Stevens, 1992:45; Du Plessis, 2002:41).

The potential for any country's tourism industry to develop will depend on its ability to maintain a competitive advantage in its delivery of goods and services at the right prices (Dwyer *et al.*, 2002:331). Sustainable tourism development is development that has been carefully planned and managed, and it is the antithesis of tourism that has developed for short-term gains. Because of the expected continued growth of tourism, sustainable development is the approach that will be needed (McIntosh, Goeldner & Ritchie, 1995:388).

The aim of this chapter is to discuss the problem statement, state the objectives of the study, explain the research methodology that was followed and give a description of the chapter layout.

1.2. PROBLEM STATEMENT

South Africa has experienced an increase in tourist arrivals (demand) since the early 1990s (South Africa Tourism, 2008). Media reports, statistics from Statistics SA (2007) and statements issued by government suggest that plans for sufficient accommodation, especially with the 2010 World Cup Soccer in mind, is in place. For example, more than 50 000 accommodation establishments (supply) have been registered on the South African Tourism website (South African Tourism, 2008; Statistics SA, 2007) and South African Tourism (2008) reports that there has also been an increase on the supply side in terms of the number of game farms, guesthouses, B&B's, lodges, hotels and other forms of accommodation. Even with the increase in the supply of accommodation, the market responded with price increases of an average of 15% from 2006-2007 (Statistics SA, 2007). This is essentially the tip of the economic iceberg where accommodation is just one aspect where transport, catering and in fact many related activities are part.

An increase of 15% per annum on the price of accommodation is surprisingly high, considering that food, transport and entertainment are not yet included in the package (Statistics SA, 2007). Porter (1990), Ritchie and Crouch (1993) as well as Cassidy and Guilding (2007) caution that the significant price increases can cause South Africa to lose its competitive advantage. The former CEO of Tourism South Africa explains that with an increase of just 10% (which is set about 18 months in advance) and the strengthening of the rand (which is an external, uncontrollable factor), the South African tourism product became 40-50% more expensive than it had been 12 to 18 months before – a factor that can threaten growth and sustainability of the industry (Benette, Jooste & Strydom, 2005:208).

In several articles, for example by Lockyer (2005), Zins (1999), Chadee and Mattson (1995), Bolton and Drew (1991) and Callow and Lerman (2003), different perceptions and the dynamics concerning the issue of price are investigated. The articles see the relationship between price and the different role-players as a very complex issue that

can be viewed from different perspectives but with one goal in mind, namely keeping a sustainable competitive advantage (Kim & Crompton, 2002; Laarman & Gregerson, 1996; Rodgers, Henderson & Ginsburg, 1993).

Travel and tourism prices are not always as straightforward to determine as it may appear. Various tourism products have different values to tourists, namely monetary value and the value to satisfy needs. These perceived benefits often relate directly to the product and the decision to visit and pay for the advantage (Haarhoff, 2007:6). In setting the most sustainable competitive price, certain existing studies (George, 2004; Kotler, 2000; Porter, 1990; Haarhoff; 2007) identify a number of main aspects that managers need to understand and take into consideration when establishing the right price for an establishment. They propose the pricing equation as shown in Figure 1.1. It is clear that demand consists of both the international and domestic tourist and that the price charged for accommodation is influenced by various factors, as described by Kotler, Bowen and Makens (2003:376-388). *External values include competition, demand, consumers' perception, environmental factors and price-value; while internal values include establishments' objectives, costs, marketing mix, and product-quality leadership: all these values must be taken into account to achieve a sustainable growth rate in tourism and for the industry to be competitive at the same time.*

The following pricing equation is based on proposals in the above literature study.

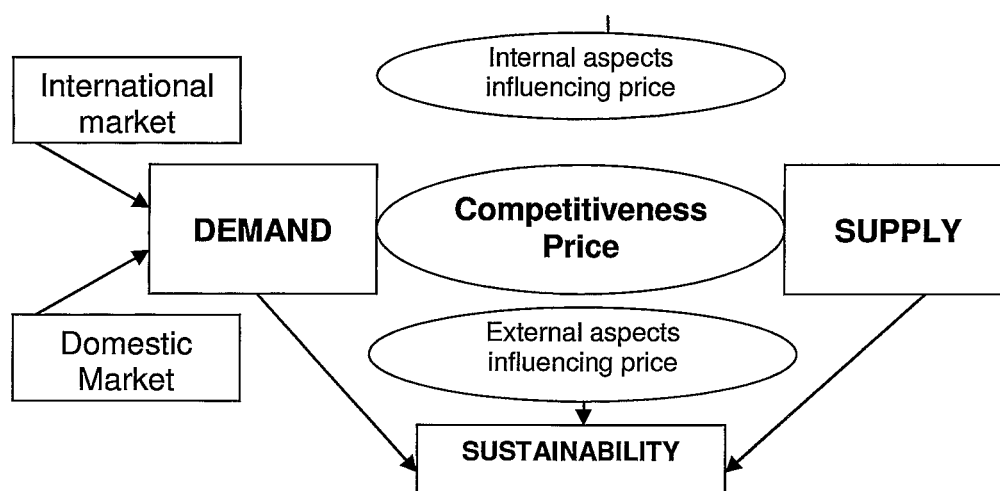


Figure 1.1: Conceptual framework for a Competitive Price

A common theme in tourism literature is the acknowledgement of the complexity of pricing (Kotler, 2000:375). Stevens (1992:44), for example, explains in a study regarding value perceptions of travellers that price has a definitive interaction with quality, which gives rise to the value-for-money concept.

Ritchie and Crouch (1993:119) define quality in the tourism context as the search to ensure excellence of the many services, facilities, events, transactions and activities that are intended to provide visitors with an enjoyable and rewarding experience during their stay at the destination. Balmer and Baum (1993), Davies and Downward (2007), Verginis and Wood (1999), Chadee and Mattson (1995) and Smidt (1993) agree with this, confirming that price creates expectations of quality which are applicable to products as well as services, and that even a too high or a too low price charged for services may lead to inaccurate perceptions of quality service.

Cassidy and Guilding (2007:281) argue that pricing issues can be influenced by diversity of managers' perceptions of prices and conclude that pricing strategies are largely "intuitive", cost plus (accounting based) and "unsophisticated", which result in a lack of responsibility towards other role-players with respect to setting a competitive price.

A suggestion made by Porter (1990:129) to managers when determining price is to keep the domestic market in mind due to the important role it plays in the quest for global competitiveness. If prices are set above the reach of the domestic market, the competitive advantage of the product and destination might suffer problems in sustainable growth. Butcher (1997:33) concurs, and stresses that one needs to "think globally but act locally".

George (2004:206) emphasises that long-term thinking in terms of price setting means keeping in mind the significance of the seasonality of demand for tourism. Seasonality is a problem not unique to the accommodation sector in South Africa. Tourism product owners can stimulate demand during the low season by lowering prices or making offers available to beat high-season demand. George (2004:207) also points out that setting the right levels of prices can impact on the life cycle of the product and determine the sustainability of the product.

Cassidy and Guiding (2007:280) explain that pricing strategies are complex and cannot be resolved by one simple formula, but are influenced by internal and external factors that will differ from destination to destination (Kotler *et al.*, 2003; Middleton & Clarke, 2001; Lewis & Chambers, 2000), as displayed in Figure 1.1.

The above argument illustrates the complexity of pricing of accommodation in the tourism industry. Hence, the research question which this study attempts to address is: *Which components and factors play a role in determining a price framework for the South African accommodation market?*

1.3. GOAL AND OBJECTIVES OF THE STUDY

1.3.1. Goal

To develop a pricing framework for the accommodation sector in South Africa.

1.3.2. Objectives

The achievement of the goal relies on the following objectives:

Objective 1

To determine the supply factors that play a role in the price of accommodation.

Objective 2

To determine the relationship between price and grading in the accommodation sector.

Objective 3

To establish pricing guidelines for graded hotels and guesthouses in South Africa.

Objective 4

To draw conclusions and make recommendations concerning the variables/approaches applied in this study to design a pricing framework for the accommodation sector in South Africa.

1.4. METHOD OF RESEARCH

This is a quantitative study, in which primary data on the topic was collected from existing sources and in which a questionnaire was used to collect problem-specific data (primary data).

1.4.1. Literature Study

A literature study was based on specific keywords: *tourism, tourist, price, quality, price competitiveness, grading, value in tourism, price models, domestic tourist, standardisation, accommodation and destinations*. The theoretical framework of pricing and grading was investigated by means of an analysis of journal articles, theses, dissertations, newspaper articles, books and other tourism-related literature. Information searches were conducted mainly through library catalogues and indexes, as well as the Internet. Scientific databases such as Google Scholar, ScienceDirect and Ebscohost played a vital role in searching for the most recent, relevant publications and information. Through these sources, a complete analysis of pricing, grading and pricing methods were done by looking at the importance and benefits of choosing the right method and factors to implement a price for accommodation that will ensure optimal competitiveness in the global market. Since an intensive literature study as well as an empirical survey (that was facilitated by using questionnaires) was used, this study incorporated both primary and secondary sources.

1.4.2. Empirical Study

The empirical study is explained with regard to the questionnaire, the population and sample size.

1.4.2.1. The questionnaire

The quantitative research was conducted by means of a structured electronic questionnaire and data analysis.

The questionnaire consisted of two sections. Section A focused on the demographic details (type of accommodation, price per person, number of beds, grading, province, level of training and primary market) while section B contained Likert scale type of

questions. Respondents had to indicate to which extent they agreed or disagreed with each of 47 statements (1=not at all important; 2=less important; 3=no opinion; 4=important; 5=very important and 6=extremely important) (Tustin, Ligtelm, Martins & van Wyk, 2005:408). The questionnaire was based primarily on the studies by Ruta and Pedrose (2005:275) and Mangion, Durbarry and Sinclair (2005:64), which represent other researchers' statements on price and factors identified in the literature review. These include the list of external and internal variables that affect price and that are put into service variables that have a direct effect on visitors' well-being, location variables, environmental variables and infrastructure service variables.

The validity, consistency and clarity of the questionnaire were tested by conducting a pilot study at a reputable local hotel and two guesthouses, to obtain their inputs and recommendations. This second draft was then tested by three subject experts. A member of Statistical Services at the North-West University helped to eliminate all possible problem areas, and then gave final approval of the questionnaire.

1.4.2.2. The population

Yoon (2002:59) defines population as the entire group under study as specified by the objective of the research.

The research was conducted at various South African accommodation establishments, selected from the databases of the three major associations in the accommodation market, namely

- SATSA (South African Tourism Service Association), one of the largest associations in the tourism industry. It is a member driven association representing the private sector of the tourism industry in Southern Africa and it also includes members that provide accommodation.
- FEDHASA (Federated Hospitality Association of Southern Africa). Since 1949, FEDHASA has been representing the South African hospitality industry at a local, provincial, national and global level to protect the interests of all stakeholders in the industry, thereby enabling members to achieve their objectives.
- TGCSA (Tourism Grading Council of South Africa). TGCSA was established in September 2000 to set a standard of quality in providing grading across all services and facilities offered by the South African tourism industry.

1.4.2.3. The sample

Cooper and Emory (1995:207) observes that when an availability sampling method is used with a population (N) of 100 000, the recommended sample size (S) is 384. However, these authors also indicated that, as a rule of thumb, the law of diminishing returns will apply when the sample size is greater than 300. A sample of 238 members of the SATSA database (N= 936) was randomly selected and questionnaires were distributed to them electronically with the help of SATSA administration staff. FEDHASA sent questionnaires to the entire database (N=660) of the association via e-mail. The researcher selected every fifth member on the TGCSA database (N=6695), to eliminate inclusion of establishments that could also be represented in other databases, and distributed questionnaires via e-mail to the respondents. Therefore, a total of 2457 questionnaires were distributed (Table 1.1) by electronic mail to the accommodation establishments over a period of 5 months. The questionnaires were returned via e-mail or fax to the researcher.

Table 1.1: Questionnaires distributed

Association	Number of members (N)	Sampling size (S)
SATSA	936	238
FEDHASA	660	660
TGCSA	6695	1559
TOTAL	8291	2457

1.4.2.4. Data analysis

Microsoft® Excel® was used for data capturing and basic data analysis. The Statistical Services at the North-West University, Potchefstroom Campus, assist in the processing of the data and SPSS software (SPSS Inc., 2007) will be used to process the information. SPSS is a world leader in e-Intelligence software and services, enabling its visitors to turn raw data into usable knowledge. The data analysis will involve initial data analysis (descriptive statistics) and will focus on the demographic profile of the managers and accommodation establishments of South Africa. Using SPSS, a factor analysis, correlation analysis, *t*-test analysis and price differentials were carried out.

a. Factor analysis

Descriptive statistics were used to gain insight into the research. Microsoft® Excel® was used for data capturing and for basic data analysis. A Principal component factor analysis with Varimax rotation in STATISTICA (StatSoft, Inc., 2007) was used in Chapter 2 (Article 1) with pair-wise deletion of missing data.

Factor analysis is a method that can be used to explain the covariance structure in data. A factor analysis describes the covariance relationships among many variables in terms of a few underlying, but unobservable, random quantities called factors. The factor model can be motivated by the following argument: Suppose variables can be grouped according to their inter-correlations. That is, all variables in a particular group are highly correlated among themselves, but have small correlations with variables in a different group. If this is the case, it is conceivable that each group of variables represents a single underlying factor that is responsible for the observed correlations. It is exactly this type of structure a factor analysis seeks to confirm (Johnson & Wichern, 2002:477-478). To determine the appropriateness of principal components analysis (data reduction procedure) for the collected data, a correlation matrix for the motivational data can be used to calculate Kaiser-Meyer-Olkin measure of sampling adequacy and the Barlett test of sphericity. The Kaiser-Meyer-Olkin measure of sampling adequacy aims to examine whether the relationship between variables is strong enough to proceed to a factor analysis. The factor analysis grouped the 47 individual statements into ten components that influence pricing in the accommodation sector in South Africa.

b. Correlation analysis

Correlation analysis was done in Chapter 3 (Article 2) between grading and price of the accommodation establishments. Correlation analysis is used to describe the strength and direction of the linear relationship between variables. In this study, the Spearman rank order was used. The procedure includes a continuous and ordinal variable. It does not meet the criteria for the Pearson's correlation and presents a non-parametric Spearman rho (Pallant, 2009:126).

c. t-test analysis

In Chapter 4 (Article 3), the significance of mean price differences between two, three, four and five stars was tested and compared between hotels and guesthouses, by means of an independent *t*-test. A *t*-test is used when two independent groups need to

be compared based on their average score on a quantitative variable with descriptive statistics (Maree, 2007:225).

d. Price differentials

Price differentials are determined in between the “stars” of guesthouses and the “stars” of hotels (see Chapter 4 (Article 3)). Price differentials are the concept of the Weber-Fechner law, representing the relation between measured magnitude of a stimulus and the measured magnitude of response. The basic assumption of this approach is that the subject price scale of the buyer resembles a ratio (logarithmic) scale rather than a natural scale (Monroe, 1990:310).

1.5. DEFINITION OF KEY CONCEPTS

The following concepts are used regularly throughout this study and are defined as follows:

1.5.1. Tourism

McIntosh *et al.* (1995:6) describe tourism as follows: “Tourism can be defined as the science, art, and business of attracting and transporting visitors, accommodating them and graciously catering to their needs and wants. Tourism comprises the activities of persons travelling to and staying in places outside their usual environment for not one consecutive year for leisure, business and other purposes.”

Saayman (2008:3), Foster (1985:7) and Tribe (1997:639) define tourism as the total experience that originates from the interaction between tourists, job providers, government systems and communities in the process of attracting, entertaining, transporting and accommodating tourists.

By analysing these definitions one can identify the following key aspects or issues pertaining to tourism. It includes:

- activities outside the normal routines of work and social commitments;
- activities during the stay at the destination (recreational, business, health, educational, family or holiday);
- interaction of tourists, between people, employees, governments and host country;

- process of attracting tourists;
- entertaining tourists;
- transporting tourists; and
- accommodation of tourists.

1.5.2. Price

According to Lumsdon (1997:153), price is the amount of money consumers pay for the exchange of benefits of having or using an offering. Saayman (2009:317) agree to this and elaborate that price in the tourism industry is the total amount of sacrifice a consumer or tourist is willing to make to acquire a product or service.

1.5.3. Tourism Grading

Gorham and Rice (2002:154) explain the grading of accommodation as a form of various criteria that indicate the rating of an accommodation establishment in the form of, for instance, stars, keys, diamonds or crowns. The more symbols an establishment earns, the higher the rating and more luxurious and expensive the accommodation establishment. Grading is often confused with classification, but is actually a qualitative assessment of facilities. It assesses how good or bad the facilities or services offered are (Callan, 1999:31).

1.5.4. Accommodation Sector

Accommodation is described in many ways, but it is agreed that it gives that general feeling of a welcome ambiances, a place to stay. Holloway (2002:118) and Bennett, Jooste and Strydom (2005:43-44) classify the accommodation sector as serviced accommodation and self-catering accommodation, whereas Pearce, Morrison and Rutledge (1998:290) divide it even further into categories such as Hotels, Motels, Guest Houses, Resorts, Timesharing and Specialist accommodation. Statistics South Africa (2007:3) distinguishes between the following accommodation types in South Africa: Hotels, Caravan parks and camping sites, Guest Houses and Guest Farms, Lodges and Other accommodation.

Tassiopoulos (2000:4) explains further that “the Standard Industrial Classification (SIC) does not distinguish the tourism industry as an economic division, but sees it as made up of several economic division (or sectors) (trade, hotels, finance, public sector etc), group divisions (retail), subgroup divisions (retail trade), and specialised divisions

(restaurants)". The tourism industry is presented diagrammatically in Figure 1.2. as discussed by various researchers and authors (Page & Connell, 2009:107; Keyser, 2009:193; Bennett, 1998:57; Cooper, Fletcher, Gilbert, Shepherd & Wanhill, 1999:314)

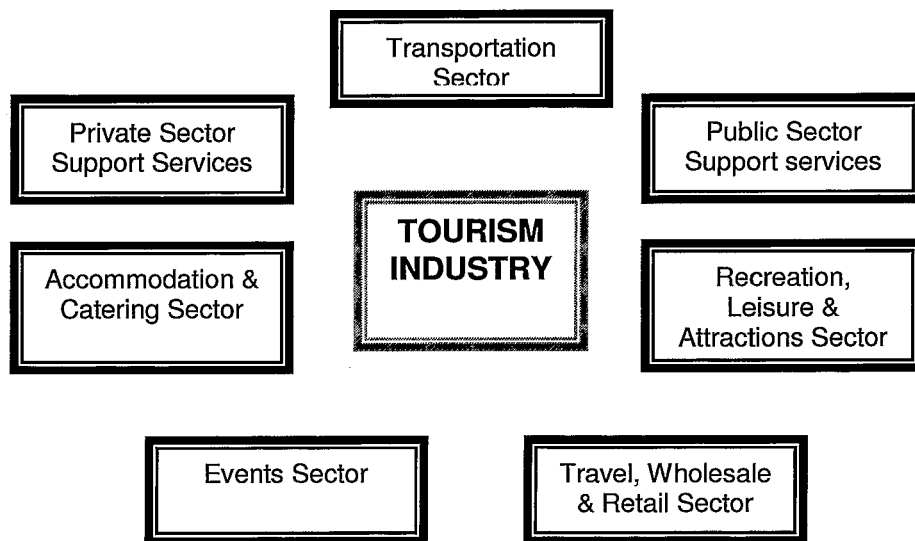


Figure 1.2: Graph of the tourism industry (adopted from Tassiopoulos 2000:4)

1.6. CHAPTER CLASSIFICATION

This study comprises five chapters. The following section includes a brief outline of what can be expect from each of the chapters.

Chapter one includes the introduction, problem statement, aims and objectives, method of research and definition of key concepts. The aim of this chapter is to give an overview of the process and factors of pricing and the problem faced by managers to set the correct price to sustain global competitiveness. It also aims to emphasise the importance of different concepts and factors that need to be taken into consideration when deciding on a price.

Chapter two (Article 1) will deal with the key factors playing a role in determining price.

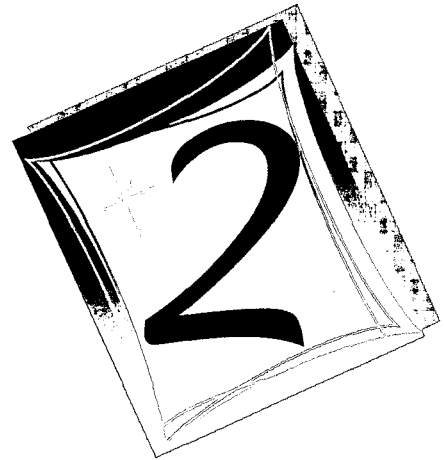
Chapter three contains Article 2, in which a correlation analysis will be done between prices and grading. It is the objective of this study to determine the importance of grading as a factor in the decision-making process of determining a price.

Chapter four contains Article 3. The aim of this article is to investigate and compare the different types of accommodation with regard to price setting and the price differentials for these prices, to enable the researcher to set price guidelines for the different accommodation types with different grading statuses. Ultimately, the aim of this process is to design a method to achieve sustainable competitiveness.

The final chapter will present the conclusions of the discussion in the foregoing chapters. Recommendations will also be made to managers in the accommodation sector in South Africa with regard to a price framework that can be used in the decision-making process when establishing a price for accommodation.

CHAPTER 2

FACTORS INFLUENCING PRICING IN THE ACCOMMODATION SECTOR IN SOUTH AFRICA



ABSTRACT

Price is an important factor in competitiveness. However, price is a very complex issue and is determined by a variety of demand and supply factors. These factors also differ from industry to industry. The purpose of this article is to determine the factors that influence pricing in the South African accommodation sector. In order to generate proper data, a survey was conducted at various South African accommodation establishments that were obtained from the databases of the three major associations in the accommodation sector. 247 questionnaires that were completed by managers from accommodation establishments were usable for this research. A principal component factor analyses with Varimax rotation in STATISTICA was performed. These resulted in ten factors, namely environmental qualities, amenities, image, management factor, positioning, quality service factor, infrastructure service factor, location, marketing and product quality factor. The main results revealed that the most important factors in pricing are service quality, image and product quality. The results of this article can be used to assist managers in pricing and in obtaining a better competitive position in the industry, with revised management structures and marketing campaigns.

Keywords: *Tourism industry, price competitiveness, service quality, image, product quality and factor analysis.*

2.1. INTRODUCTION

The tourism industry has become a key sector in the world economy and a major driver of economic growth and employment worldwide (Blanke & Chiesa, 2008:3). Despite the realities presented by the economic slowdown, 2008 remained a buoyant year for the South African tourism industry. Foreign arrival figures for 2008 showed a strong increase of 5,4%. This followed an excellent growth rate of 8,3% in 2007. Accommodation establishments responded to the increase in demand with an increase of 0.8% units that have been registered on the South African Tourism website (South African Tourism, 2008:1). In the same period, the price of accommodation establishments showed an average increase of 15%, whereas inflation for the year was 12,48% (Stats SA, 2009). This happened despite warnings by the World Tourism and Travel Council (WTTC, 2007:2) that the demand for global Travel and Tourism is expected to slow down due to factors such as an increase in fuel prices and rising transport cost. According to Porter (1990:86), Ritchie and Crouch (1993:118), and Cassidy and Guilding (2007:278), the significance of continued price increases in the accommodation sector can leave the tourism industry in a competitive crisis, considered that food, transport, and entertainment are not yet included in travel packages. It is important to bear in mind that the South African tourism industry is by no means immune to the effects of the international economic crisis (South African Tourism, 2008:1). Since accommodation plays an important role in tourism, it is important to identify the factors influencing pricing in the accommodation sector in South Africa. In order to achieve this, the rest of the article is organised as follows. A literature review is presented, followed by an explanation of the method of research and a discussion of the results. Finally, concluding remarks and recommendations are made.

2.2. LITERATURE REVIEW

Porter (1989:11) identifies price as a very critical element in competitiveness and emphasises that pure competitive advantage may take one of two basic forms, namely low cost or differentiated products that are sold at premium prices. Schindehutte and Morris (2001:41) showed that historically, managers have taken price for granted, concluding that its principal function was to cover cost and generate a reasonable rate of return. Cassidy and Guilding (2007:276) also point out that pricing issues can be influenced by the diversity

of managers' perceptions of prices and that it can result in complications and a lack of responsibility to other role players with respect to setting a competitive price. Researchers such as Lockyer (2005), Chadee and Mattson (1995), Bolton and Drew (1991), Haarhoff (2007), Kim and Crompton (2002), Laarman and Gregerson (1996), and Rodgers, Henderson and Ginsburg (1993) describe pricing as a complex concept with significant impact on sustainability.

Lumsdon (1997:153) defines price as the amount of money consumers or tourists are willing to pay for the exchange of benefits of having or using an offering. Keller (1997:12) points out that the tourist attaches different meanings to price than the accommodation establishment. To the tourist, price represents the amount of money that is being paid for a product or service and thus for the need satisfaction that is received. The tourist will view price as acceptable if the value equals the amount of money that is being paid for the product in terms of service quality. To the establishment, price relates directly to income and profitability. The situation is complicated by the fact that different people have different perceptions, with the result that managers take different factors into consideration when they are setting a price. Experts such as Lewis and Chambers (2000), Dwyer, Forsyth and Rao (2000), Cassidy and Guiding (2007) and Ritchie and Crouch (1993) rate pricing and price competition as the biggest problem facing managers in the tourism industry. According to Middleton and Clarke (2001:139), pricing is the least understood aspect in the management task; yet it is the most controllable tool. Rogers *et al.* (1993:34), Lewis and Schoemaker (1997:45), Middleton and Clarke (2001:138) and Haarhoff (2007:34) concur that price is a management tool that relates to the pursuit of business objectives and that it is also a tactical tool concerned with the management of demand and supply factors.

If the dynamics of price are understood, better choices can be made to control and use factors to determine price and to find a solution for the problem of competitiveness and sustainability (Kotler, Bowen & Makens, 2003:375). When setting a price, managers must consider the suggestion made by Porter (1990:129) and Butcher (1997:33), namely to keep the product affordable to the domestic market as well, because the tourism industry is primarily built on the domestic market. This is pivotal for sustaining a competitive advantage.

Dwyer *et al.* (2000:10), Mangion, Durbarry and Sinclair (2005:46), Middleton and Clarke, (2001:139) and Lewis and Chambers (2000:200) also stress that “pricing is more art than science” due to the amount of factors that influence pricing. Factors of demand and supply are critical for pricing, because demand and supply factors differ from industry to industry, and also from destination to destination, but these remain the two most important forces that determine price (Saayman, 2006:140). McIntosh, Goeldner and Ritchie (1995:297) indicated that the tourists’ willingness to travel (demand) and choice will largely be determined by factors such as psychographic profile, socio-economic status, demographic variables such as population, income in country of origin, leisure time, education, occupation and family orientation, which is also influenced by the number of children and their choices. In addition, Alegre and Pou (2006), Divisekera (2003), Athiyaman (1997), Lim (1997a, 1997b, 1999,), Mangion *et al.*, (2005), Morley (1998), Ong (1995), Crouch (1995), De Keyser and VanHove (1994), González and Moral (1995) Gomezelj and Milhalič, (2008) and Dwyer, Forsyth and Rao (2002:330) also indicated the cost of transport, relative prices, exchange rates, availability and quality of accommodation, availability of tour services, quality of food and beverage, variety of entertainment, children’s facilities and qualitative factors. The latter comprise variables such as tourist appeal, image, the quality of tourist services, destination marketing, promotion and cultural ties.

Research by Saayman and Saayman (2008:84) identified a number of aspects to play a role in the demand of inbound tourism to South Africa, namely income of service market, relative prices, transport cost, exchange rates, marketing expenses, qualitative factors (including tourist’ attributes which influence time available for travel), trade and cultural links between the countries, destination attractiveness, events taking place at the destination and social threats and supply factors. The combination, availability and quality of tourism products and infrastructure supplied to tourists influence tourism demand. Based on their research they identified the most significant determinants of tourism demand to be income of tourists, relative prices, travel cost, climate and capacity (bed and aircraft).

From a supply point of view, De Keyser and VanHove (1994:22), Sirše and Mihalic (1999:36) and Saayman (2006:33) indicated the following factors that influence pricing, namely the availability of cultural events, beauty and quality of beaches, number of

sunshine days, climate, architecture, variety of events, scenic beauty, wildlife, entertainment, exchange rate, accessibility, cost, attractions, price levels, labour supply and infrastructure. Gomezelj and Milhalič (2008:295) and Laarman and Gregerson (1996:247) found that over and above this list of aspects, “green” and more environmentally friendly attractions and accommodation facilities play an increasingly more important role in the minds of consumers. Managers realise the importance of supplying free range products, of supporting the effort to minimise the human carbon footprint on the environment and of managing the establishment in such a manner as to provide environmentally friendly products and experiences.

Ruta and Pedrosa (2005:275) divided the factors that influence pricing into four qualitatively distinct groups, namely (1) services, which include variables that directly affect the visitor’s “well-being”; (2) location variables, describing the establishment’s location regarding major attractions, shopping malls and entertainment; (3) environmental variables, which affect the quality of the area near the accommodation facility; and (4) infrastructural service variables, which are expected to impact positively on accommodation prices.

The literature that was consulted above makes it clear that there is a wide range of supply factors that determine price. However, very little research has been done in this regard in South Africa and ultimately the question remains which factors are taken in consideration by managers of accommodation establishments when they have to set a price. What do these managers regard as important? Recent research mostly focused on the views of consumers, thus the demand side, while few investigated the supply side. This further emphasises the importance of this study.

2.3. METHOD OF RESEARCH

The method of research used will be discussed under the following headings: (i) the exploratory research done by means of a structured questionnaire, (ii) samples and (iii) the statistical analysis.

2.3.1. The questionnaire

The questionnaire consisted of two sections. Section A focused on the demographic details (type of accommodation, price per person, number of beds, grading, province, level of training and primary market) while section B contained Likert scale type of questions. Respondents had to indicate to which extent they agreed or disagreed (1=not at all important; 2=less important; 3=no opinion; 4=important; 5 very important and 6=extremely important) with each of the 47 statement (Tustin, Ligtelm, Martins & van Wyk, 2005:408). The questionnaire was based primarily on the studies by Ruta and Pedrose (2005:275) and Mangion *et al.* (2005:64) and factors identified in the literature review.

This article concentrated on the information obtained from section B.

2.3.2. The sample

The research was conducted at various South African accommodation establishments, selected from the databases of the three major associations in the accommodation market, namely

- SATSA (South African Tourism Service Association), one of the largest associations in the tourism industry. It is a member driven association representing the private sector of the incoming tourism industry in Southern Africa and it also includes members that provide accommodation.
- FEDHASA (Federated Hospitality Association of Southern Africa). Since 1949, FEDHASA has been representing the South African hospitality industry at a local, provincial, national and global level to protect the interests of all stakeholders in the industry, thereby enabling members to achieve their objectives.
- TGCSA (Tourism Grading Council of South Africa). TGCSA was established in September 2000 to set a standard of quality in providing grading across all services and facilities offered by the South African tourism industry.

A sample of 238 members of the SATSA database (N= 936) was randomly selected and questionnaires were distributed to them electronically with the help of SATSA administration staff, as indicated in Table 2.1. FEDHASA sent questionnaires to the entire

database (N=660) of the association via e-mail. The researcher selected every fifth member on the TGCSA database (N=6695), to eliminate inclusion of establishments that could also be represented in other databases. and distributed questionnaires via e-mail to the respondents. Therefore, a total of 2457 questionnaires were distributed by electronic mail to the accommodation establishments over a period of 5 months. The questionnaires were returned via e-mail or fax to the researcher.

Table 2.1 shows that 247 usable questionnaires were completed and returned; representing an overall response rate of 1,8%, which is a representative sample for this population (Cooper & Emory, 1995:126).

Table 2.1: Questionnaires distributed, completed and analysed

Association	Number of members	Sampling size	Total of questionnaires received
SATSA	936	238	
FEDHASA	660	660	
TGCSA	6695	1559	
TOTAL	8291	2457	247

2.3.3. Statistical calculations

Descriptive statistics were used to gain insight into the research. A principal component factor analysis with Varimax rotation in STATISTICA (StatSoft, Inc., 2007) was used with pair wise deletion of missing data.

The factor analysis grouped the 47 individual statements into ten components that influence pricing in the accommodation sector in South Africa. To determine the appropriateness of principal components analysis (data reduction procedure) for the collected data, a correlation matrix for the motivational data was used to calculate Kaiser-Meyer-Olkin measure of sampling adequacy and the Barlett test of sphericity. The Kaiser-Meyer-Olkin measure of sampling adequacy aims to examine whether the relationship between variables is strong enough to proceed to a factor analysis. The Barlett test was found to be significant ($p < 0.00001$), indicating that there is correlation between items. Therefore the data reduction by principal components would be legitimate. A factor

analysis with Varimax rotation was performed. An eigenvalue of 1,0 was used for factor extraction criterion and loadings above .3 were used for item inclusion. Cronbach's coefficients were also examined for each factor to check the reliability of the data and to serve as a measure of internal consistency among the items. All but one of the factors had a value of more than 0.60. The exception was positioning, which had a value of 0.49 (Table 2).

A factor analysis is undertaken to establish whether a latent construct underlies statements in the questionnaire, which can be grouped together as one factor.

2.4. RESULTS

The factor analysis identified ten factors (Table 2), which were labelled according to items that contributed to it. These factors were labelled as environmental qualities (factor 1), amenities (factor 2), image (factor 3), management (factor 4), positioning (factor 5), quality service (factor 6), infrastructure service (factor 7), location (factor 8), marketing (factor 9) and product quality (factor 10).

Table 2.2: Results of the factor analysis

Pattern Matrix

	Factors									
	1 Environmental Qualities	2 Amenities	3 Image	4 Management factor	5 Positioning	6 Quality Service	7 Infrastructure Service factor	8 Location	9 Marketing	10 Product quality
Facility located in natural surroundings	.794									
Quality of air	.719									
The remoteness of the facility	.613									
Environmentally friendly operation	.605									
Quality of the water	.642									
Variety of attractions	.672									
Climate	.681									
Location	.415									
Lift		.446								
Facility has a casino		.918								
Facility has a disco		.891								
Facility has a golf course		.780								
Facility has at least one tennis court		.705								
Kids facilities		.524								
Recreation Facilities (pools, snack bar etc.)		.424								
Shops at the facility		.535								
Facility are disabled-friendly		.329								
The status (well known, famous) of the facility			.733							
The percentage profit desired			.394							
Uniqueness attributed by the product			.610							
The Target Market			.504							
The total experience offered by the facility			.525							
The cost incurred to develop the facilities				.522						
Demand				.472						

	Environmental Qualities	Amenities	Image	Management factor	Positioning	Service factor	Infrastructure Service factor	Location	Marketing	Product quality
Quality of basic infrastructure				.391						
Distance to shopping malls				.532						
What competitors offers					.439					
Situated close or part of a major attraction					.672					
Product quality						.559				
Quality of food						.609				
Level of hygienic conditions						.821				
Personal safety						.766				
Variety of food (DBB, half board etc.)							.506			
Supply of electricity							.554			
Accessibility of facility							.507			
Distance from airport								.538		
Distance from beach								.708		
Quality of the beach								.696		
The marketing expenses									.420	
Seasonality									.345	
Psychological considerations									.600	
Exchange rate in the case of foreigners									.717	
Postal and banking services with money changing facilities									.622	
Room density									.479	
The facilities grading status										.443
Services (air-conditioning, DSTV, internet, etc.)										.671
Privacy of rooms										.532
Cronbach Alphas	.894	.813	.750	.706	.491	.801	.808	.781	.745	.611
Mean values	4,37	3,19	4,87	4,29	4,55	5,06	4,46	3,59	3,87	4,78

- **Factor 1: Environmental qualities**

The environmental qualities include aspects such as the natural surroundings, location, climate, quality of the air and water, whether the operation is environmentally friendly, the remoteness of the facility, and the variety of attractions. This research therefore confirms research by Dwyer, Mellor, Livaic, Edwards and Kim (2004:94) and Cassidy and Guiding (2007:277), who indicated that the natural environment as well as climate conditions (see Saayman and Saayman, 2008) are important attributes of a destination and therefore play an important role when price is being decided. These results further show that managers are taking tourists' growing environmental concerns into consideration when determining price. It also correlates with findings by De Keyser and Vanhove (1994:19) and Gomezelj and Milhalič (2008:295). This factor had a mean value of 4,37, which is the 6th highest value.

- **Factor 2: Amenities**

Amenities had the lowest mean value (3,19) and include facilities such as a lift, casino, disco, tennis court, children's facilities, recreation facilities and facilities that are disabled friendly. The tourist facilities are those elements in tourist products which do not necessarily provide the motivation for tourist flow, but the absence of which may deter the tourist from travelling to enjoy the attraction and accommodation (Das, Sharma, Mohapatra & Sarkar, 2007:106; Mangion, Durbarry & Sinclair, 2005:56). These results confirm research by Gomezelj and Milhalič (2008:298) who indicated these aspects as important in determining price. It also correlates with findings by White (2006:135), who indicated the important role of facilities and attractions for children.

- **Factor 3: Image**

Researchers such as Kim (1998:340) and Knowles (1994:89) identified image as an important factor when determining a price, which is confirmed by this research. It may be regarded as very important, since this factor had the second highest mean value (4,87). It includes variables such as the status (well-known, famous) of the facility, uniqueness of the facility, the percentage profit desire, the total experience offered and the target market. According to Bolton and Thompson (2004:16), image is created by word of mouth, previous

visits, media and the marketing campaign and could also be considered as the ambiance of a facility.

- **Factor 4: Management**

Factor 4 has a mean value of 4,29, the seventh highest, and includes cost incurred to develop the facilities, demand, quality of the basic infrastructure and distance from shopping malls. In research on the management of guesthouses, Slabbert and Saayman (2003:98) indicated that aspects such as those raised above should be taken into consideration when determining prices. The above-mentioned researchers indicated that in most cases managers do not take these aspects into account, whereas this research found the opposite.

- **Factor 5: Positioning**

Positioning included aspects such as what competitors offer and where the facility is located in terms of other major attractions. Ruta and Pedrosa (2005:275) and Saayman (2006:137) also found positioning to be an important factor in determining price. It had a mean value of 4,55 and is rated fourth.

- **Factor 6: Quality service**

Quality service had the highest mean value (5,06) and comprises product quality, quality food, hygiene and safety. All four factors contribute to the overall service that a tourist experiences while visiting a tourist establishment and supports research by Stevens (1992:44), Crouch and Ritchie (1999:140), and Mangion *et al.* (2005:56). Furthermore, Du Plessis (2000), Haarhoff (2007), Van der Westhuisen and Saayman (2007) clearly indicated that these aspects are paramount in determining price and that they are also a key success factor for managing accommodation establishments. This research confirms the importance of this factor.

- **Factor 7: Infrastructure service factor**

The provision of basic infrastructure to tourists can influence the attractiveness of the destination and can have an influence on pricing (Ruta & Pedrosa, 2005:275; McIntosh *et al.*, 1995:270). Infrastructure had a mean value of 4,46 and is seen as an important demand factor for accommodation (see Saayman & Saayman, 2008:77).

- **Factor 8: Location**

Location as a factor influencing price has been identified by Cassidy and Guiding (2007:279) and Mangion *et al.* (2005:56). Their findings are confirmed by this research, where the factor of location has a mean value of 3,59. Location included distance from an airport, distance from a beach and the quality of the beach.

- **Factor 9: Marketing**

Saayman and Saayman (2008:184) concluded that marketing expenses play an important role in determining the demand of inbound tourists and therefore also in pricing. This factor has a mean value of 3,87 but encapsulated aspects such as seasonality and psychological considerations, which are all important aspects in tourism (Gomezelj & Milhalič, 2008:298).

- **Factor 10: Product quality factor**

The product quality factor includes a facility's grading status, services like air-conditioning, DSTV, internet, room service, en-suite rooms and the privacy of rooms. Lockyer (2005:348) and Crouch and Ritchie (1999:120) emphasise the importance of these aspects and argue that the quality (that is demonstrated in grading status) and availability of the products at the establishments can add to the perception of value for money and therefore have a significant influence on the pricing of the accommodation. This factor has the third largest mean value of 4,78.

The next section will deal with the implications and conclusions of this research.

2.5. IMPLICATIONS

The above findings have the following implications:

Firstly, managers take a combination of demand and supply factors in consideration when determining price. It is also clear that a wide variety of aspects play a role in determining price, and that managers do not base their prices on merely a few factors, as is generally believed. It is therefore very important that managers, and especially potential entrepreneurs and persons starting new tourism ventures, receive training on price determination. The results also imply that curriculum's of training institutions involved in the training of tourism managers should be reviewed accordingly.

Secondly, with regard to the three most important factors as indicated by the mean values, namely **quality service**, **image** and **product quality**, it is clear that the needs and perceptions of tourists are taken into consideration when price is being determined. Similar findings were made by Ritchie and Crouch (1993) and Mangion *et al.* (2005), who highlighted the fact that the needs of tourists should be a priority.

Thirdly, the research highlights the importance of quality, especially in the minds of managers, when price is being determined. A follow-up study is necessary to determine whether tourists have the same perception of quality as managers of accommodation establishments. However, the research confirms that quality is an important component of price determination in the accommodation sector. Again, this implies a greater focus on the training of tourism managers.

Fourthly, the results support the notion that managers are also taking into consideration the growing environmental concerns of tourists. Thus, managers should adapt an alternative management approach that could result in product modification. Examples include the use of alternative energy resources, environmentally friendly building designs and the use of environmentally friendly building materials. Furthermore, managers have the responsibility to educate workers about recycling, saving and conserving natural resources.

Lastly, this research also indicated a marketing implication where managers could promote the accommodation establishment's support for the conservation of the environment through supplying organic amenities, eco-friendly products, free range products, controlling noise, water and air pollution and supporting local environmental concerns. In addition, managers could use factors such as the natural beauty, climate conditions, location and the quality of air and water to promote the facility and to sustain a competitive advantage.

2.6. RECOMMENDATIONS AND CONCLUSIONS

The purpose of this study was to identify the factors influencing pricing in the accommodation sector in South Africa. Results of this research indicated that managers in the South African accommodation sector identified ten factors that play a role in pricing. A similar combination of variables could not be found in existing literature, which confirms the notion that pricing is a complex issue and that various factors can influence pricing, especially in different circumstances and countries.

The findings support the importance of quality in tourism and stress the necessity that South African managers should develop and improve the overall quality with sufficient training, as this can result in better prices and secure the sustainability of the facility.

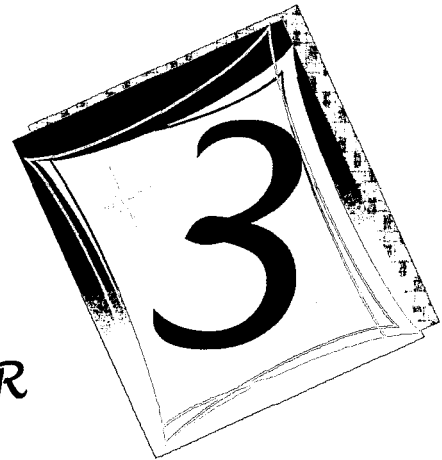
It is also clear from the findings that global market trends such as environmental concerns, economic conditions and changing demand factors contribute to managers' dilemma to set competitive prices.

This study recommends that further research be done to test the identified factors from the point of view of the tourist (demand side). This can provide important insight into adapting marketing strategies and product development, which can in turn result in a sustainable competitive advantage. It is also strongly recommended that research be undertaken to investigate the management policies regarding environmental concerns and the implementation of alternative methods and products to provide a service and to satisfy needs through an environmentally friendly experience.

As external environments become less predictable and more uncontrollable, it is necessary for managers to be more strategic in pricing behaviours in order to survive. The 10 factors identified in this study can contribute to the above.

CHAPTER 3

THE RELATIONSHIP BETWEEN GRADING AND PRICE IN THE ACCOMMODATION SECTOR OF SOUTH AFRICA



ABSTRACT

This article focuses on an analysis of the relationship between grading and price in the accommodation sector in South Africa. The literature review investigated whether the accommodation grading system is a good indicator of accommodation quality, and if tourists get what they are paying for. The literature review reveals a relationship between grading and price. The research was conducted in cooperation with the major role players in the accommodation sector in South Africa, namely SATSA (South African Tourism Service Association), FEDHASA (Federated Hospitality Association of Southern Africa) and TGCSA (Tourism Grading Council of South Africa). 2288 questionnaires were sent out via e-mail and 247 completed questionnaires were received back. Spearman rank correlation was conducted and the results show a strong correlation between the grading of the accommodation and price. This confirms that managers also consider “stars” as symbols of the type of quality which they can use to communicate a “value for money” experience when tourists choose accommodation at a certain price.

Keywords: Grading, price, Tourism, quality, accommodation, value for money, Spearman rank correlation

3.1. INTRODUCTION AND BACKGROUND

Over the last decade, the South African tourism industry has recognised the importance of quality assurance as a means of gaining a competitive advantage (Matlou, 2004:1). Industry associations, professional bodies and government tourism offices have promoted the importance of best practice and continuous improvement and have supported the development of accreditation programmes in nearly all sectors of the industry (Foster, 2003:2).

Grading in South Africa started as an initiative by the Hotel Board, and from 1965 only hotels were graded. In 1992 the South African Tourism Board (SATOUR) took over the responsibility of grading as part of their marketing portfolio. According to the Tourism Act 72 of 1993, the grading and classification scheme of the South African Tourism Board (SATOUR) was voluntary. As a result, only a small percentage of the accommodation sector was accredited in accordance with the classification scheme and therefore standards could not be applied to the whole industry (Swart, 1997:96). This system was, however, discontinued in 1999, when some major hotel groups disapproved of the new grading system because they claimed that it was not effective. SATOUR, as part of their restructuring process, also realised that it was not their mandate to grade or set standards for the industry because it was primarily an international marketing agency (Saayman, 2009). It was then decided to transfer the function to the Department of Environmental Affairs and Tourism (DEAT) together with tour guiding, which was also managed by SATOUR. The Department of Environmental Affairs and Tourism (DEAT) registered the Tourism Grading Council of South Africa (TGCSA) as a Section 21 Company in August 2000 (Tanner, 2003:33). It officially launched the national star grading scheme on 29 November 2001 (TGCSA, 2002). The aim of TGCSA is to ensure that a process of quality assurance is continuously sought across tourism facilities and services offered to the consumer. Different accreditation criteria were developed to grade the different types for accommodation establishments in South Africa, which include hotels, guesthouses, B&Bs, lodges, caravan & camping and backpackers. The grading system enhances the value of the overall quality system and makes it more transparent, allowing other grading associations to participate in the process (TGCSA, 2009).

The latter include the Automobile Association (AA), South African Bureau of Standards (SABS), Portfolio collection and local grading schemes in provinces and local municipalities. Star classification originated in Europe and is one of the best known techniques used for the grading of establishments. Although there is still a number of grading and quality assurance schemes in operation, it is likely that the star grading system will become dominant in the future.

It is the goal of this study to determine the relationship between grading and price in the accommodation sector of South Africa. To achieve this goal, the remainder of this paper is structured as follows: Section 2 deals with the literature review and consists of the literature study. Section 3 explains the methodology, section 4 presents the results of the analysis as well as the discussion and section 5 highlights management implications. Section 6 draws final conclusions.

3.2. LITERATURE REVIEW

When managers of accommodation establishments attempts to convince tourists of the quality that is being presented, a classification or grading system is often used to communicate this important issue. The existence of accommodation classification or grading is common practice throughout the world; however, research projects focused on analysing these systems are scarce (Israeli & Uriely, 2000; Callan & Lefebve, 1997; Callan, 1995; Fernandez & Bedia, 2004; Lim & Hall, 2008). Israeli (2002:419) and Danzinger, Israeli and Bekerman (2006:141) demonstrate that the grading system used by managers is a good indicator of price and it is also assumed to be one of quality that customers still rely on.

However, different tourism products have different values to tourists and managers and these values are often difficult to measure or explain. To tourists, "value" can imply monetary value and/or the value to satisfy their basic needs. According to Zeithalm (1998:4), Weaver, Weber and McCleary (2007:334) and Alcañiz, Gracia and Blas (2005:298), "value" refers to tourists' overall assessment of the quality of a product based

on perceptions of what is received and what is given. Value can have different meanings; firstly it constitutes an affordable price, secondly it represents what is desired from a product, thirdly it refers to the quality a customer receives for a price paid, and lastly it is what a customer gets in return for what is being offered. It is clear from the studies of Zeithalm (1988), Weaver *et al.* (2007), Alcañiz *et al.* (2005) and Haarhoff (2007) that value for money is based on a relationship between quality and price.

Israeli (2002:418) also suggests that a high star rating is an asset for accommodation establishments that can consistently generate revenue and that it is not very sensitive to changes in the competitive environment. A study by Fernandes and Bedia (2004:771) supports the findings of Israeli and concludes that in 4 and 5 star hotels, the value expectations as well as perceptions were significantly higher than those for the remaining categories, and the researchers suggested that these hotels should therefore have the liberty to ask higher prices. Lim and Hall (2008:339) demonstrate the strong relationship between grading and price, stating the actual prices asked in South West UK Hotels. Foster (2000:11) also refers to research on the customer's perception of grading and concludes that tourists expected to pay more at accredited establishments because of the "better quality of service and facilities" they **expect** to receive in return. In the minds of consumers, managers are responsible to ensure quality that reflects the star rating, and this is very important for the accommodation establishment to be competitive in terms of price (Haarhoff, 2007:76). Ryan and Huimin (2007:380) and Fernandez and Bedia (2004:772) also highlight the relationship between grading and price, explaining that accommodation offered at a low price may often be perceived as accommodation of inferior quality.

The research referred to above was mostly done on the demand side and concentrated on tourists' perceptions and expectations regarding price and grading. It attempted to determine whether tourists see a relationship between pricing and grading which would then be translated into value for money. However, from a supply point of view, it is interesting to take cognisance of the fact that prices are determined by managers and owners who want to maximise profit but also to indicate a certain level of standard. From a marketing point of view, a graded establishment might have an advantage as well, and

therefore grading makes sense. However, the question remains whether grading plays a role at all when prices for accommodation are determined, and if so, whether there is a correlation between grading and price, and a clear difference between prices for different star gradings. It is important that the tourist must be convinced that the quality received is consistent with the price paid.

An important consequence of tourism is the need for sufficient accommodation of acceptable standards for tourist at an affordable price (Van der Westhuizen & Saayman, 2007:121; Haarhoff, 2007:70). The tourist's perception or image of a product will determine that product's success (if the experience conforms with or exceeds the perception) or failure (when the experience does not conform with or is below expectations) (Kim, 1998:341).

3.3. METHOD OF RESEARCH

Data used in the analysis was gathered over 5 months in co-operation with major role-players in the accommodation sector by means of a questionnaire. The methodology that was used will be discussed with reference to the questionnaire, the samples and statistical analysis.

3.3.1. The questionnaire

The questionnaire consisted of two sections. Section A focused on the demographic details (type of accommodation, price per person, number of beds, grading, province, level of training and primary market) while section B made use of Likert-scale type questions.

The questionnaire's validity, consistency and clarity were tested by conducting a pilot study at a reputable local hotel and two guesthouses, to obtain their inputs and recommendations. This second draft was then tested by three subject experts. A member of Statistical Services at the North-West University helped to eliminate all possible problem areas, and then gave final approval of the questionnaire.

For the purpose of this article, the information obtained in section A was the most important. Question 5 (asking the average price per person per night / single occupancy) and question 7 (asking which level of grading was achieved, for instance 1 or 5 stars) are particularly important for this study. A correlation analysis was done to explore the association between these pairs of variables.

3.3.2. The sample

The research was conducted at various South African accommodation establishments. Establishments were identified on the databases of the three major associations in the accommodation market, namely SATSA (South African Tourism Service Association), FEDHASA (Federated Hospitality Association of Southern Africa) and TGCSA (Tourism Grading Council of South Africa).

In order to achieve the largest possible sample, a total of 2 457 questionnaires were sent to the accommodation establishments by electronic mail. As indicated in Table 1, SATSA selected a sample of every fourth member of the database, which includes 936 members. FEDHASA sent questionnaires to the entire database of 660 establishments and the researcher sent a questionnaire via e-mail to every fifth member of TGCSA. The selected participants were given the option to return the completed questionnaire to the researcher by fax or e-mail.

Table 3.1 shows that one 169 questionnaires were returned as having been undelivered. Of the remaining 2 288 questionnaires, 247 usable questionnaires were completed and returned; representing an overall response rate of 10.80%.

Table 3.1: Questionnaires distributed, completed and analysed

Association	Number of members	Sampling size	Total surveys received
SATSA	936	238	
FEDHASA	660	660	
TGCSA	6695	1559	
TOTAL	8291	2457	247

3.3.3. The method and statistical calculations

Correlation analysis was done between grading and price. Correlation analysis is used to describe the strength and direction of the linear relationship between variables. In this study, the Spearman rank order was used. The procedure includes a continuous and ordinal variable. It does not meet the criteria for the Pearson's correlation and presents a non-parametric Spearman rho (SPSS, 2009:126).

3.4. RESULTS AND DISCUSSION

Below, a profile of the managers and the various accommodation establishments is given, followed by the results of the correlation analysis.

3.4.1. Demographic details of managers and accommodation establishments in South Africa

The results captured in section A focused on the demographics of the managers and accommodation establishments and showed that the majority (60,7%) of establishments participating in the survey were guesthouses and B&B (Table 3.2). These statistics support a study by Van der Westhuizen and Saayman (2007) about the growth and establishment of guesthouses in South Africa recent years. The rest of the participating establishments were hotels (22,3%) and other types of accommodation (17%), including mainly self-catering establishments and lodges (9,7%). The average number of beds for the entire sample was 65,1 beds (Table 3.2). The average number of beds of the largest respondent, namely guesthouses and B&Bs, is 12, with an average number of 4 rooms. The average number of rooms for the entire sample is 31,9 rooms (Table 3.2). The average price is R643,67 per person. 93,9% of the respondents are graded at the TGCSA and 47,9% are four star establishments. Most of the establishments represent the Western Cape and 45,7% of their market is South African. 32% of the managers have either a degree or diploma.

Table 3.2: Demographics of accommodation establishments and managers

Variable	Averages
Type of accommodation	60,7% Guesthouses and B&B
Average number of beds	65,1 Beds
Average number of rooms	31,9 Rooms
Average price	R643.67 p/p/n
Grading association	93,9% have a TGCSA grading
Level of grading	47,9% have a four star grading
Province	44,5% Western Cape Province
Primary market	45,7% South African market
Financial training	32% Diploma/degree

3.4.2. Correlation analysis

The Spearman Rank Correlation in Table 3.3 shows a correlation coefficient of 0.653, which is also statistically significant ($p \approx 0.000$). In addition, the effect size was calculated and is given by $\eta^2 = 0.653$ which indicates an important relationship.

Table 3.3: Spearman Rank correlation

			LEVEL	AV PRICE
Spearman's rho	LEVEL	Correlation Coefficient	1.000	.653**
		Sig. (2-tailed)		.000
		N	236	236
	AV PRICE	Correlation Coefficient	.653**	1.000
		Sig. (2-tailed)	.000	
		N	236	242

** Correlation is significant at the 0.01 level (2-tailed).

Secondly, a scatter plot was generated to check for violation of the assumptions of linearity and homoscedasticity and this gives an idea of the nature of the relationship between variables (SPSS, 2009: 127).

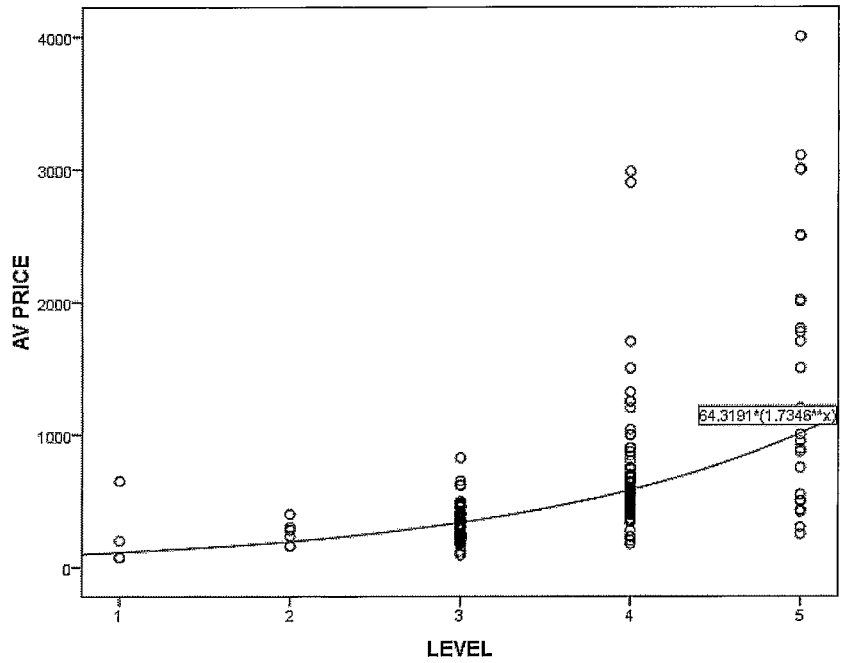


Figure 3.1: Scatter plot of average price

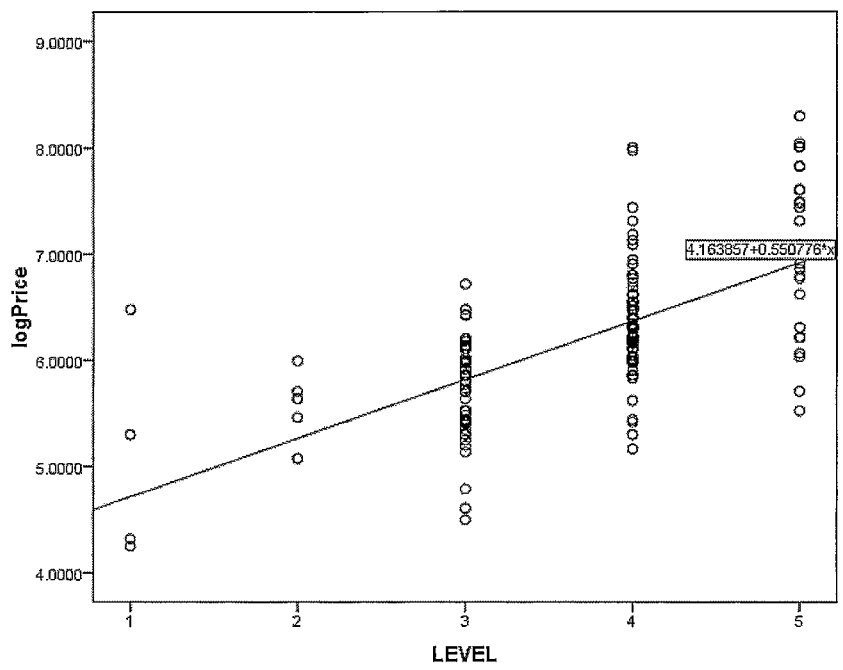


Figure 3.2: Log transformation

After applying a log transformation (Figure 3.2) to the data, a straight line was fitted to the data level, versus the log price. Back transform was applied, leading to the exponential curve $y=64.3191(1.7)^x$, which is displayed in Figure 3.1.

To understand the model values better, Table 3.4 was developed to explain the different values that were calculated.

Table 3.4: Price values for the grading levels

Grading Level	Level description	Model average Price	Median Price Value	Mean Price value
1	Fair to good	111.60	137.00	248.00
2	Good quality	193.50	280.00	259.00
3	Very good quality	335.70	350.00	349.00
4	Superior (excellent)	582.30	512.00	624.00
5	Exceptional quality and luxurious accommodation	1010.00	1350.00	1607.00

In Table 3.4, the model value is calculated ($y=64.3191(1.7)^x$) for x = the level of grading. The median price value is displayed in the box plots in Figure 3.3 and 3.4. It is clear that the correlation between grading and price is very strong and that the accommodation sector in South Africa uses grading as a means to display quality: prices rise along with a raised grading status.

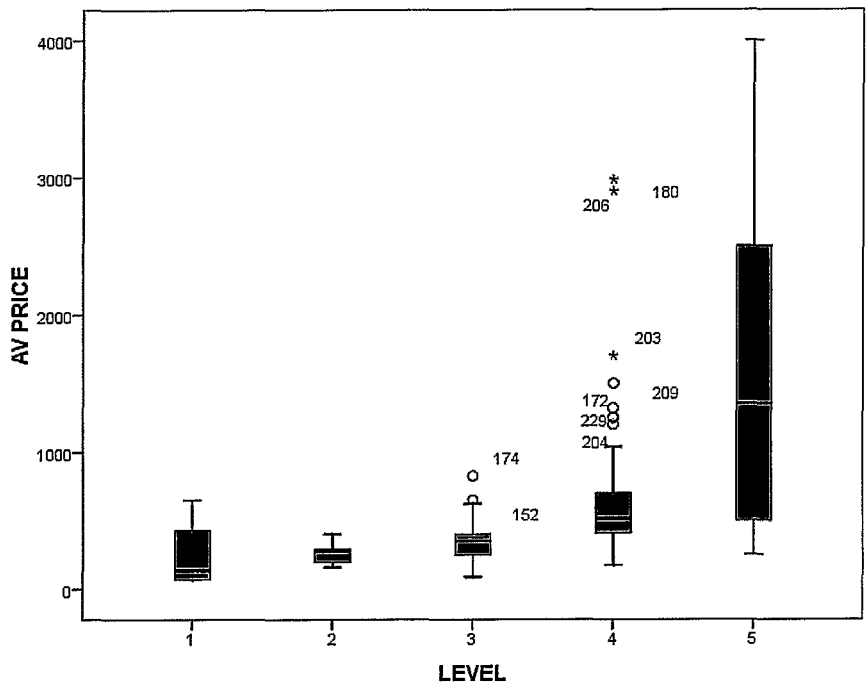


Figure 3.3: Box plot of average price

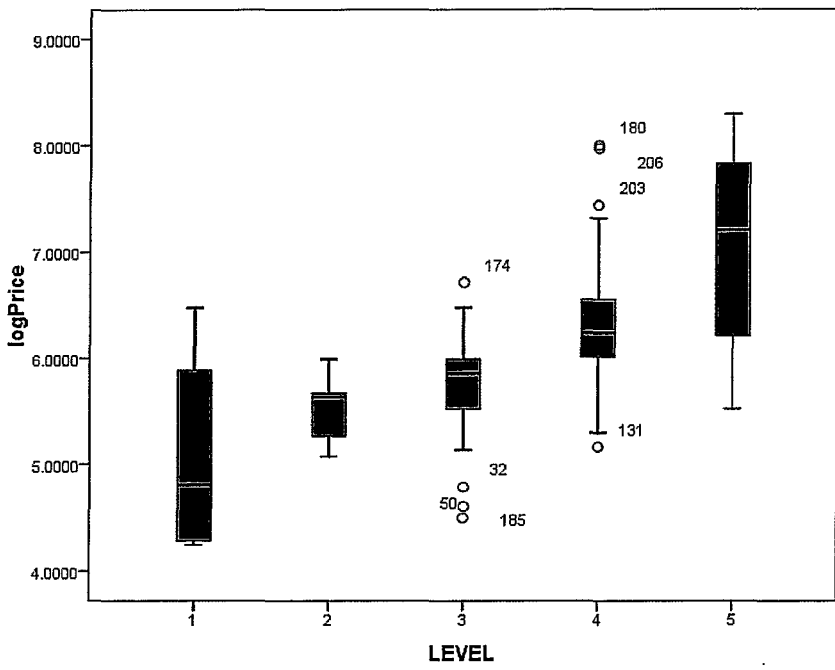


Figure 3.4: Box plot of log price

The next section will explain the implications of the findings for managers of tourist accommodation establishments in South Africa.

3.5. FINDINGS AND MANAGEMENT IMPLICATIONS

This research has found a strong relationship between grading and price among different types of accommodation establishments in South Africa. This study differs from previous studies in that it focuses on the perceptions of individual managers of different types of accommodation establishment with different grading levels. It responds to the problem raised by Israeli (2002:418) and Fernandes and Bedia (2004:771) that research tends to focus primarily on hotels, to the exclusion of other types of accommodation. The strong relationship between grading and price demonstrates that the aim of grading that is to ensure quality, to provide value for money and to obtain a competitive advantage. This confirms findings by Israeli (2002); Fernandes and Bedia (2004); Danzinger *et al.* (2006); Lim and Hall (2008); Foster (2000) and Ryan and Huimin (2007). Based on the results of the research conducted, the following implication can be identified.

Firstly, accommodation associations such as SATSA, FEDHASA and TGCSA could use this information as part of their marketing campaign, emphasising that a certain price class is associated with a specific grading or star rating. Whether this is experienced as value for money by tourists, is an aspect for further research.

Secondly, these findings could be used as a guideline to set pricing policies.

Thirdly, it should be considered to make it compulsory for all accommodation establishments to be graded. This could ensure greater competition and also set high standards for the industry as a whole.

3.6. CONCLUSIONS

This study has investigated the relationship between grading and price in the accommodation sector of South Africa. The study shows that there is a strong relationship

between grading and price in the accommodation sector in South Africa. The contribution of this research is to highlight the importance of grading to promote quality, to ensure competitiveness and to determine price, providing value for money. By demonstrating the relationship between price and grading, this research further indicates that managers in the South African accommodation sector understand the importance of setting prices in correlation with grading status, and the important role grading plays in the quest for competitiveness.

This study also emphasises the importance for further research to investigate the relationship between grading and price from the tourist point of view. Research concerning tourist satisfaction and dissatisfaction with accommodation establishments can provide important insight into product development. Comparisons between grading systems of different countries through further research can provide more insight in the competitiveness of prices for accommodation. The information obtained from the suggested research can be used to obtain a clearer picture of the accommodation sector's competitiveness and quality assurance, and the way in which it provides value for money.

CHAPTER 4

PRICING GUIDELINES FOR GRADED HOTELS AND GUESTHOUSES IN SOUTH AFRICA



ABSTRACT

The pricing of accommodation is a very complex process and this research attempted to provide guidelines for both hotels and guesthouses in South Africa. These two types of accommodation hold the largest share of the South African market. To achieve the goal, a survey was conducted in cooperation with the major role players in the accommodation sector in South Africa, SATSA (South African Tourism Service Association), FEDHASA (Federated Hospitality Association of Southern Africa) and TGCSA (Tourism Grading Council of South Africa). A total of 2 288 questionnaires were sent out via e-mail and 247 completed questionnaires were returned. The significance of mean price differences of star classification was tested and hotels and guesthouses were compared using an independent *t*-test. The results show a significant difference between the prices of hotels and guesthouses and especially in the 5-star categories. The research suggests a 20% discrepancy between prices of the different star categories, indicating healthy competition between industry players. These pricing guidelines can sustain competitiveness with growing profitability.

Key words: Accommodation sector, price strategies, price methods, price competitiveness, grading, t-test.

4.1. INTRODUCTION

Pricing decisions, according to Rogers (1995:220), are based on more than just fluctuations in demand relative to the available supply of a product or service. This makes the pricing concept a complex issue (Lockyer, 2005; Chadee & Mattson, 1995; Bolton & Drew, 1991; Kim & Crompton, 2002; Laarman & Gregerson, 1996; and Rodgers, Henderson & Ginsburg, 1993). The image associated with the establishment, grading, value for money, environmental qualities, amenities, management, positioning, development cost, infrastructure service, location, marketing and the overall pricing strategy of the establishments themselves are some of the factors influencing pricing. As a result, pricing is an art as much as it is a science and, according to Nagel and Holden (1995:9): "It depends as much on good judgement as on precise calculation." Price, according to Monroe (1990:7), is the amount of money that consumers exchange for an assortment of products and services provided by sellers or, in this case, accommodation establishments.

The increase of international tourist arrivals and the growth of the domestic market since 1991 have led to price increases in the South African accommodation sector, especially in popular tourist areas such as Cape Town and Johannesburg. This situation makes these areas inaccessible for many local tourists who cannot afford these prices (Saayman 2002:5). The bulk of these accommodation establishments are furthermore SMMEs (small, medium and micro enterprises) (Department of Environmental Affairs and Tourism, 2004:24). Therefore, entrepreneurs entering the accommodation market find it difficult to survive. This is mostly as a result of the absence of the necessary pricing guidelines. The reason being that viability studies are based on faulty information and this leads to 'price following'. Price following, as described by Rogers (1995:220), is a means of coping with the complexity of price decision making and the price set by the market leaders becomes the ceiling under which smaller establishments are forced to operate. Price following could also be seen as a rough guesstimate. Haarhoff (2007:7) indicated in her research that South Africa's accommodation sector is perceived as expensive from a demand point of view. The question is whether this is true from a supply side analysis.

With the latter in mind, the aim of this article is to provide pricing guidelines for graded hotels and guesthouses in South Africa. To achieve this goal, the rest of the article is organised as follows. A literature review is presented, followed by the method of research and a discussion of the results. Finally, concluding remarks and recommendations are made.

4.2. LITERATURE REVIEW

Economists argue that pricing is regulated by the widely accepted principle of elasticity of demand (Collins & Parsa, 2006:93; Pellinen, 2003:220). In normative approaches, pricing usually focuses on physical products and pricing is often presented by textbook writers as a set of alternative principles or techniques (Monroe, 1990; Nagle & Holden, 1995). In general, there are three approaches to pricing (Collins & Parsa, 2006; Pellinen, 2003; Monroe, 1990; Nagle & Holden, 1995). These are cost-based pricing, customer-driven pricing and, competition-driven pricing. Pellinen (2003:221) added time as a fourth basis for pricing.

Although these strategies appear to be rational approaches to the pricing dilemma, the challenges faced by managers in the tourism industry lie in applying these strategies without specific guidelines. The reason for this is that the tourism product is a package of several products that include transport, accommodation, food and entertainment, which makes pricing complex (Bulhalis, 2000; Kotler, Bowen & Makens, 2003; Rohlfs & Kimes, 2007; Mangion, Durbarry & Sinclair, 2005; Koc, 2006; Collins & Parsa, 2006; Thrane, 2005). If one does an analysis of accommodation, it would include self catering establishments, camping, chalets, lodges, caravanning, game reserves, guesthouses, bed & breakfast and guest farms (Holloway, 2002:118; Pearce, Morrison & Rutledge, 1998:290; Haarhoff, 2007:56). Differentiating between the different types of accommodation establishments, different standards (grading) and different facilities adds to the complexity of pricing. Grading systems set standards portrayed in symbols such as stars, diamonds, crowns or keys and these symbols vary from country to country. As quality and luxury increases, the accommodation becomes more expensive (Pearce *et al.* 1998:291, Gorham & Rice, 2002:154). In South Africa, the Tourism Grading Council of South Africa (TGCSA,

2007) is one of the key institutions responsible for the voluntary grading of establishments with star symbols. Other grading schemes include the Automobile Association (AA), the South African Bureau of Standards (SABS), Portfolio collection and local grading schemes in respective provinces and various local municipalities.

As tourists gain experience of other destinations which are directly or indirectly in competition, perceptions of quality and overall performance play a role in the tourist's decision-making process. Implicitly or explicitly, tourists make comparisons between facilities, prices and service standards (Kozak & Rimmington, 1999:274), making it important to gain a competitive advantage. Most tourists are willing to pay a reasonable room rate provided they receive value for money. The prices of two products should not be different unless the products themselves are perceived as different by tourists.

Koc (2006:860) explains that managers and entrepreneurs of accommodation establishments have three main goals, firstly to be profitable, secondly to be competitive and thirdly to sustain the first two goals. Starting with the first goal, being profitable is the result of the combination of various factors, with price considered to be one of the most important (Pellin, 2003:221; Dwyer, Forsyth & Rao, 2000:12). There is also a strong relationship between the price charged by an accommodation establishment, its profit margin, and the level of service quality it offers to tourists (Koc, 2006:865). The improvement of service quality and differentiation of product and service offerings from competitors plays a major role in overall tourist satisfaction, providing a competitive advantage.

Competitive advantage is widely accepted as being of central importance to the success of organisations and destinations (Porter, 1990:24). Various authors (Dwyer, Forsyth & Rao, 2000; Lewis & Chambers, 2000; Cassidy & Guilding, 2007) have linked competitiveness to economics, marketing and strategic perspectives, prices, quality and satisfaction. Successful pricing is not an end in itself, but a continuous process of balancing the different price factors and approaches (Nagle & Holden, 1995:122; Koc, 2006:860).

The tourism industry is a competitive marketplace where only the best managed destinations are likely to prosper and sustain growth levels (Porter, 1990:12). Middleton

and Hawkins (1998:8) state that the management perspective of accommodation establishments must balance the interests of owners and employees with the long-term sustainable interests of the establishment and, at the same time, meet the demands and expectations of domestic and international tourists. In the past, managers believed that it was enough to have only the tourist and destination's resources, low salaries, attractive exchange rates and a favourable image for them to compete and be successful internationally (Vengesai, 2003:637). This approach gave rise to the formulation and implementation of strategies and policies that were aimed mainly at stimulating tourist volumes. Results of this approach were not satisfying, leading to the need for more specific guidelines in pricing techniques and approaches (Vengesai, 2003:638).

Researchers such as Lockyer (2005), Chadee and Mattson (1995), Bolton and Drew (1991), Haarhoff (2007), Kim and Crompton (2002), Laarman and Gregerson (1996), and Rodgers, Henderson and Ginsburg (1993) highlighted that pricing decisions are multifaceted and complex, requiring more than one approach to be used by managers. This also applies to entrepreneurs entering the market, who need to decide what prices to charge (Rogers, 1995:220; Bulhalis, 2000:110). Prices send clear messages to tourists as to what to expect of the quality that is being offered (Schindehutte & Morris, 2001:41). Getting the balance right is the key to being perceived by tourists as a value-for-money product (Wilkins, Merrilees & Herington, 2007:841; Swarbrooke, 1995:306; Zeithaml, 1988, Parasuraman, Zeithaml & Berry, 1985).

The absence of guidelines in terms of pricing policies and approaches adds to the problem faced by South African managers and entrepreneurs in determining prices for different accommodation types with similar grading status (Haarhoff, 2007:56). Prices that are set too high or too low can have a devastating impact on the feasibility of the business. Therefore value for money is paramount, especially from a tourist perspective (Dwyer, Edwards, Mistilis, Roman & Scott, 2009:68).

The literature review indicated that pricing in tourism used models such as the AIDS (Almost Ideal Demand System) and the HPM (Hedonic Pricing Model) that indicated the

extent to which the provision of different tourism product characteristics can contribute to an increase in prices (Mangion, Durbarry & Sinclair, 2005; Divisekera, 2003; Pellinen, 2003, González & Moral 1995; Aguiló, Alegre & Sard, 2003; Aguiló, Alegre & Riera, 2001; Papatheodorou, 2002; Espinet, Saez, Coenders & Fluviá, 2003; Ruta & Pedroso, 2005; and Haroutunian, Mitsis & Pashardes, 2005). Thrane (2005:304) demonstrates that the hotel grading factor has, as expected, a positive and pronounced effect on the overall price of packaged tours, and suggests an 11% increase in price between the different packages that include different quality in accommodation. Koc (2006:872) supports the all-inclusive pricing strategy for accommodation establishments together with other tourism products, if well managed. This strategy allows tourism firms to continuously monitor and improve performance while reducing the cost at the same time. Research by Collins and Parsa (2006) on price ending strategies (for example asking R295 rather than R300) revealed that hotels used these strategies to communicate value and quality. Managers use different price strategies to influence the demand of a product. Another pricing strategy is the price discrimination strategy. This strategy is often used in the airline industry and national parks, which distinguish between the entrance fees for international and domestic tourists (SANParks, 2009:2).

Price discrimination is explained by charging different prices to different consumers, which results in an impact on tourism demand as shown by the results of the following researchers; Fouché (2006), Pearson (2002), Fetzer (2002), Giaume and Guillou (2004), Alpizar (2006), Leslie (2002), Howard and Crompton (2004) and Stavins (1996). However, few price discrimination studies have focused on the accommodation sector. Although some literature is available concerning price strategies related to tourism, little attention has been paid to building linkages between theoretical and empirical findings from tourism pricing models and their relevance to managers' decision-making processes for determining prices (Mangion, Durbarry & Sinclair, 2005:47).

In Figure 4.1, a conceptual pricing model developed from the literature review is portrayed. The model indicates that different price factors, grading status and the demand and perceptions of domestic and international tourists contribute to the constant interaction

between effective management and entrepreneurship in providing value for money. Asking the right price should result in higher levels of sustainability, competitiveness resulting in profitability.

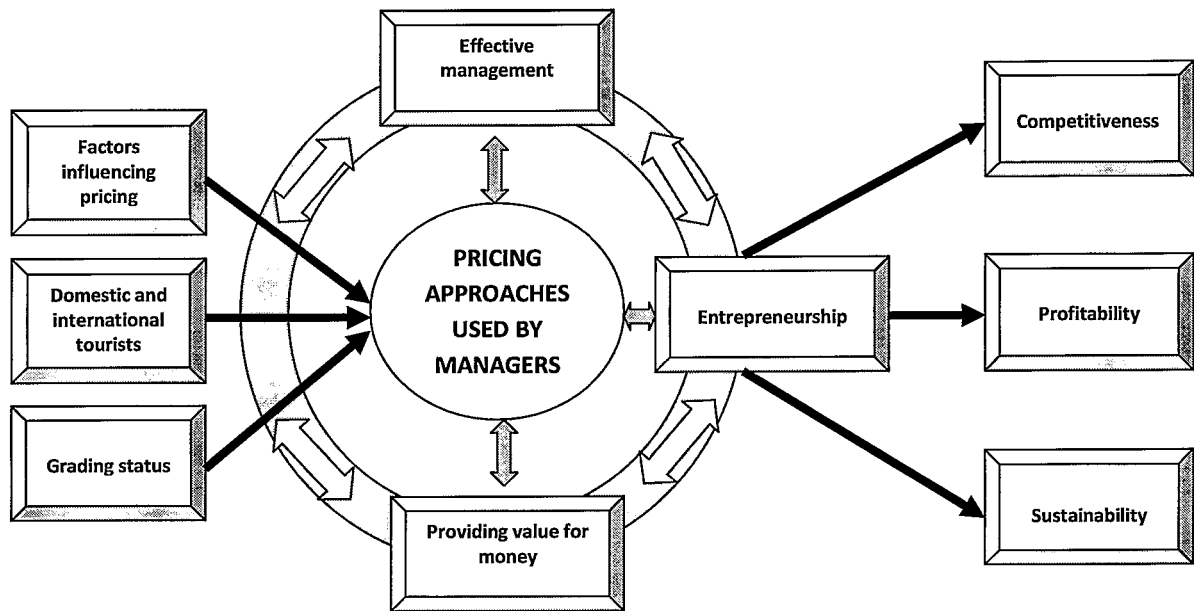


Figure 4.1: Conceptual pricing diagram for guesthouses and hotels of South Africa

Given that a wide range of variables influence pricing, it is important to determine guidelines that could assist the industry, especially new entrants, in determining the viability of starting an accommodation establishment.

4.3. METHOD OF RESEARCH

Data used in the analysis were gathered from managers and owners of accommodation establishments in South Africa by means of a questionnaire.

4.3.1. The questionnaire

The empirical survey was conducted by means of an electronic mail survey, using a questionnaire developed from the literature study that was based on the studies by Ruta and Pedrose (2005:275) and Mangion *et al.* (2005:64) and price factors identified in the tourism studies of Dwyer *et al.* (2000:10), Middleton and Clarke, (2001:139) and Lewis and Chambers (2000:200). The questionnaire comprised two sections. Section A focused on the demographic details (type of accommodation, price per person, number of beds, grading, province, level of training and primary market) while section B made use of Likert-scale type questions to determine whether respondents agreed or disagreed with each of the 47 statements (1 = not at all important; 2 = less important; 3 = no opinion; 4 = important; 5 = very important and 6 = extremely important) (Tustin, Ligtelm, Martins & van Wyk, 2005:408). For the purpose of this article, the information obtained in section A was predominantly used.

4.3.2. The sample

The major source of the sampling frame was the three key associations in the accommodation sector in South Africa, SATSA (South African Tourism Service Association), FEDHASA (Federated Hospitality Association of Southern Africa) and TGCSA (Tourism Grading Council of South Africa), which represented most of the accommodation establishments in South Africa. To achieve the largest possible sample, a total of 2 457 questionnaires were sent in collaboration with the three associations as indicated in Table 4.1. SATSA selected a sample of every fourth member of the database, which includes 936 members. FEDHASA sent questionnaires to the entire database of 660 establishments and the researcher sent a questionnaire via e-mail to every fifth member of TGCSA. The selected participants were given the option to return the completed questionnaire to the researcher by fax or e-mail. One hundred and sixty nine questionnaires were returned as having been undelivered. Of the remaining 2 288 questionnaires, 247 usable questionnaires were completed and returned; representing 10,80% of the sample, which is a representative sample for this population (Cooper & Emory, 1995:126).

Table 4.1: Questionnaires distributed, completed and analysed

Association	Number of members	Sampling size	Total surveys received
SATSA	936	238	
FEDHASA	660	660	
TGCSA	6695	1559	
TOTAL	8291	2457	247

4.3.3. The method and statistical calculations

The analysis of data in this study consisted of three stages. Firstly, the demographic details of the various accommodation establishments were compiled with the help of SPSS (SPSS Inc., 2007). Secondly, the significance of mean price differences between 2-star, 3-star, 4-star, and 5-star hotels and guesthouses were tested and compared using an independent *t*-test. The *t*-test is used when two independent groups need to be compared based on their average score on a quantitative variable with descriptive statistics (Maree, 2007:225). The effect size for the difference between hotels and guesthouses of each grading status (1-star to 5-star) was also calculated, since this will provide an indication of the magnitude of the differences between the two groups. For the interpretation of effect sizes, the following guidelines are used: a small effect, where $d=0.2$, a medium effect $d=0.5$ and $d=0.8$ a large effect (Steyn, 2000:32). The effect sizes therefore provide an objective measure of the importance of each effect (Steyn, 2000:32; Field, 2005:32; Pallant, 2007:235).

Lastly, price differentials are being determined between the 'stars' of guesthouses and the 'stars' of hotels. Price differentials (Table 4.2) are the concept of the Weber–Fechner law (*evaluating price differences relative to the level of the base price*), representing the relationship between the measured magnitude of a stimulus and the measured magnitude of response (Nagle & Holden, 1995:300). The basic assumption of this approach is that the subject price scale of the buyer resembles a ratio (logarithmic) scale rather than a natural

scale. That is, the differences in prices between products should reflect relative differences rather than absolute differences (Monroe, 1990:310).

Table 4.2: Determining price differentials

-
1. Rank products in ascending order of expected prices, i.e., from low to high prices
 2. Determine the low-end price, P_{\min}
 3. Determine the high-end price, P_{\max}
 4. The price of the j th-ordered product is

$$P_j = P_{\min} k^{j-1} \quad k > 1$$

5. Thus, the problem is to determine k :

$$\log k = \frac{1}{n-1} (\log P_{\max} - \log P_{\min})$$

where n is the number of products in the line

4.4. RESULTS

A summary is given below of the demographic details of the various accommodation establishments, followed by the results of the t -test analysis and the price differentials among the classifications (stars) of the two accommodation types, guesthouses and hotels.

4.4.1. Demographic details of accommodation establishments in South Africa

The results captured in section A focused on the demographics of the managers and accommodation establishments but, for this study, the profile of the accommodation establishment is summarised in Table 4.3. These statistics support studies by Van der Westhuizen and Saayman (2007) and Fraser (1999:6) on the growth and establishment of guesthouses in South Africa. Based on the results captured and displayed in Table 4.3, accommodation types are predominantly guesthouses (60,7%) and hotels, with an average price of R643.67 per person per night, single occupancy. The largest group of the accommodation establishments are graded by TGCSA and have received a 4-star rating.

The majority of these establishments are situated in the Western Cape and relate to the findings of the studies of Haarhoff (2007:219) and Du Plessis (2002:93) and the list of South African Tourism (SAT: 2009:2) identifying Cape Town and the Western Cape as the most visited and popular tourist destinations.

Table 4.3: Demographics of accommodation establishments

Variable	Averages
Type of accommodation	60,7% Guesthouses. 22,3% Hotels
Average price	R643.67 pppn
Grading association	93,9% have a TGCSA grading
Level of grading	47,9% have a 4-star grading
Province	44,5% Western Cape Province
Primary market	45,7% South African market

4.4.2. Results of the independent *t*-test

An independent *t*-test was done between types of accommodation (guesthouse and hotel) to determine whether there are significant differences between their prices at each level of grading. The significant results will be discussed in this section.

Table 4.4: T-test analysis

Stars	Hotels					Guesthouses					p-value	Effect Size
	Mean	Median	Min	Max	Std. Dev.	Mean	Median	Min	Max	Std. Dev.		
2	300.00	300.00	300.00	300.00		298.75	280.00	235.00	400.00	70.75	0.988	0.02
3	541.11	485.00	450.00	825.00	124.52	323.73	350.00	120.00	650.00	98.38	<0.001	1.75
4	813.60	750.00	475.00	1,320.00	243.84	506.97	480.00	275.00	1,500.00	168.52	<0.001	1.26
5	2,234.25	2,007.50	870.00	4,000.00	973.06	516.00	500.00	250.00	1,000.00	216.60	<0.001	1.77

As shown in Table 4.4, there is a statistically significant difference between prices of hotels and guesthouses for 3-star, 4-star, and 5-star establishments. 5-star hotels are priced considerably higher (R2,234.25) than 5-star guesthouses (R516.00). In both types of accommodation the prices differ between 3-star, 4-star, and 5-star establishments, with the largest difference between three and four stars for guesthouses and between four and five

stars for hotels. Based on the p-value, it is clear that the prices of 2-star hotels and guesthouses are not statistically significantly different. The effect sizes, for 3-star, 4-star, and 5-star establishments showed a large effect ($d > 0.8$) that is important in practice and statistically significant.

4.4.3. Result of the price differentials

Taking the results of the *t*-test into consideration (illustrating the large difference between the prices of guesthouses and hotels) motivated the researchers to calculate the price differentials separately to achieve a clearer picture of what is happening with price setting. If P_{\min} is known, the price of any product in line can be set, thereby determining the price differentials between products.

Table 4.5: Price differentials for hotels

<u>Price (Rand, R)</u>		
Model	Theoretical	Actual
2-Star	300.00	300.00
3-Star	585.00	541.11
4-Star	1,140.75	813.60
5-Star	2,224.46	2,234.25
$P_{\min} = R300$	$P_{\max} = R 2,234.25$	$n=4$
$\text{Log } k = \frac{1}{4-1} (\log 2234.25 - \log 300)$	3 star = 300 (1.95) = 585 4 star = 585 (1.95) = 1,140.75 5 star = 1,140.75 (1.95) = 2,224.46	
$\text{Log } k = 0.290$ $k = 1.950$		

According to the price differentials for hotels (Table 4.5), the actual prices of 4-star hotels are set too low in comparison with 5-star hotels and the price differential suggests an increase of R327.15 which is approximately 40%. This can indicate 4-star prices that are too low or 5star hotels that set prices too high. This question leads to calculation of the price differentials between 2-star, 3-star, and 4-star hotels as indicated in Table 4.6.

Table 4.6: Price differentials for hotels (2-4 stars)

Price (Rand, R)		
Model	Theoretical	Actual
2-Star	300.00	300.00
3-Star	493.80	541.11
4-Star	812.80	813.60
$P_{\min} = R300$ $P_{\max} = R 813.60$ $n=3$		
$\text{Log } k = \frac{1}{3-1} (\log 813.60 - \log 300)$		3 star = 300 (1.646) = 493.80 4 star = 493.80 (1.646) = 812.80 5 star = 812.80 (1.646) = 1,337.87
$\text{Log } k = 0.217$ $k = 1.646$		
Model	Theoretical	Actual
5-Star	1,337.87	2,234.25

Table 4.6 shows that when 5-star prices are eliminated and a price differential price is calculated on 2-star, 3-star, and 4-star hotels, prices of the 4-star hotels are more acceptable as calculated in Table 4.5. When a theoretical price is calculated for 5-star hotels with $k=1.646$, the price is reduced by almost R897, that is approximately 40%.

These two price differential tables suggest either a price margin between stars of 95% or 64%, depending on the view as to whether 4-star hotel prices are set too low or the prices of 5-star hotels are set too high. To compare these price differentials to guesthouses, Table 4.7 illustrates the price differentials between stars of guesthouses in South Africa.

Table 4.7: Price differentials of guesthouses

Price (Rand, R)		
Model	Theoretical	Actual
2-Star	298.75	298.75
3-Star	358.20	323.73
4-Star	429.48	506.97
5-Star	514.95	516.00
$P_{\min} = R298.75$ $P_{\max} = R516$ $n=4$		
$\text{Log } k = \frac{1}{4-1} (\log 516 - \log 298.75)$		3-star = 298.75 (1.199) = 358.20 4-star = 358.20 (1.199) = 429.48 5-star = 429.48 (1.199) = 514.95
$\text{Log } k = 0.079$ $k = 1.199$		

The price differentials (Table 4.7) demonstrate a $k=1.199$ value that indicates a 19% growth between stars, with a strong correlation between the actual and theoretical prices. These price differentials support the findings of Van der Westhuizen and Saayman (2007) that the growth in guesthouses resulted in competition amongst establishments that seemed to influence prices.

In Table 4.8, the price differential is calculated with the average prices of hotels and guesthouses between two, three, four and five stars.

Table 4.8: Price differentials for hotels and guesthouses

<u>Price (Rand, R)</u>		
Model	Theoretical	Actual
2-Star	299.38	299.38
3-Star	497.87	432.42
4-Star	827.96	660.29
5-Star	1,376.89	1,375.13
$P_{min} = R299.38$		$P_{max} = R1375.13$ $n=4$
$\text{Log } k = \frac{1}{4-1} (\log 1375.13 - \log 299.38)$		3-star = 299.38 (1.663) = 497.87 4-star = 497.87 (1.663) = 827.96 5-star = 827.96 (1.663) = 1,376.89
$\text{Log } k = 0.221$ $k = 1.663$		

As indicated in Table 4.8, an increase of 66% in prices between stars is calculated with the average price of the two types of accommodation. The largest significant price difference between actual and theoretical is four-stars.

The next section will explain the implications of the findings for managers of guesthouses and hotels in South Africa.

4.5. FINDINGS AND IMPLICATIONS

Results of this research suggest significant price discrepancies with an average of 95% between each of the different star levels (2-star, 3-star, 4-star, and 5-star establishments). The results further indicated a more acceptable price discrepancy of 20% *ceteris paribus*, between 2-star and 3-star, 3-star and 4-star, and 4-star and 5-star establishments. These

findings therefore support the results of a study conducted by Haarhoff (2007:195) on price competitiveness of South Africa as a tourist destination, who found that four- and five-star hotels are perceived by tourists to be too expensive in comparison to the same level of accommodation of guesthouses and guest farms. The studies by Fernandes and Bedia (2004:771) and Israeli (2002:418) also indicated that perceptions of 4-star and 5-star hotels are much higher than other types of accommodation establishments.

Although it is clear from the literature review that a wide variety of aspects and methods can be used to determine price (Rogers, 1995; Bulhalis, 2000; Kotler *et al.*, 1996; Rohlf's & Kimes, 2007; Mangion, Durbarry & Sinclair, 2005; Koc, 2006; Collins & Parsa, 2006; Thrane, 2005). The results, however, indicated the absence of strategic pricing policies for the accommodation sector in South Africa and therefore imply a strategy of 'price following'.

Based on the findings above, the following implications are evident:

Firstly, the absence of pricing guidelines or policies could contribute to entrepreneurs and managers setting prices either too high or too low. This could jeopardise their efforts, especially in the long term, and impact negatively on the sustainability of their businesses. It is also evident that some managers or entrepreneurs have a policy that if the demand is great enough, then higher than normal prices would suffice. This is especially true in popular destinations such as Cape Town and Johannesburg. Again, the downside of this is a perception that the South African accommodation sector is too expensive. Another implication is that local tourists are excluded from using these establishments because they are too expensive. Local tourists, according to Crouch (1994:645) and Dwyer *et al.* (2009:65), remain the backbone of a destination's tourism industry and efforts should be made to accommodate them or they will travel to more affordable destinations elsewhere. Research by Saayman (2001:6) indicated that foreign markets to South Africa are more sensitive to factors such as safety and security, compared to the domestic and local markets. Pricing guidelines can assist managers in setting affordable prices for the domestic market without compromising their profits.

Secondly, 'price following' as a pricing method cannot be seen as a sustainable strategy over a long period and cannot be promoted since the factors influencing price differ from one accommodation establishment to the next. Hence development cost might be higher for product A compared to product B and, if the same price is asked, it will have two different impacts on the viability of these establishments.

Lastly, that training of entrepreneurs and managers remains of the utmost importance to avoid the problems raised above. It is therefore suggested that local tourism associations such as SATSA, FEDHASA and TGCSA should take the lead in providing workshops for managers and entrepreneurs.

4.6. CONCLUSIONS AND RECOMMENDATIONS

In conclusion, the aim of this study was to provide pricing guidelines for the South African graded guesthouses and hotels. The research showed significant differences between these types of accommodation, consequently motivating pricing guidelines. After calculating price differentials for hotels and guesthouses, it was clear that the latter have a more acceptable increase percentage of 20% between grading levels and supports the study by Thrane (2005:304) that suggested an 11% increase of price between the different levels of quality indicated by the star symbol on the holiday packages. Similar price differentials between quality levels of two types of accommodation establishments could not be found in the literature, which confirms the notion of the complexity of pricing, considering different factors, methods and policies.

The methods used in this study add value to the accommodation market and contribute to the knowledge about price for the supply side of the industry.

Based on the findings the following recommendations are made:

- ❖ Firstly, all accommodation establishments should be graded to remain competitive and sustain that advantage.

- ❖ Secondly, guidelines for hotels suggest a 50-60% growth between grading levels (stars) and 15–25% growth between star classifications of guesthouses in South Africa. These price increases must be regularly tested against competitors.

With regard to future research, it is recommended that different pricing policies and models could be tested in the South African accommodation scenario. The latter could include the AIDS model and Hedonic Price model. Lastly, the guidelines provided in this study could be evaluated from the demand side, and tourists' views on prices for graded establishments could give insight towards more effective pricing guidelines.

CHAPTER 5



CONCLUSIONS AND RECOMMENDATIONS

5.1. INTRODUCTION

It is always risky to make predictions, especially in the current economic climate; yet it seems safe to suggest that tourism will not become less important in the future, since people's urge to travel is increasing, as is evident in global statistics (World Tourism Organisation, 2008:2; Statistics SA, 2007:2; South African Tourism, 2008:3).

In view of this phenomenon, it was the **aim** of this study to develop a pricing framework for the South African accommodation market. To attain this aim, the following objectives were set and pursued:

- Objective 1: To determine the factors that play a role in the pricing of accommodation establishments. This objective is achieved in Chapter 2 (Article 1) of the study. The research clearly identified ten factors that influenced managers in the pricing process of accommodation establishments.
- Objective 2: To determine the relationship between price and grading in the accommodation sector. This objective is achieved in Chapter 3 (Article 2) and the research clearly indicated that there is a strong correlation between the price of accommodation and the grading status obtained.
- Objective 3: To establish pricing guidelines for graded hotels and guesthouses in South Africa. This objective is achieved in Chapter 4 (Article 3). Results showed that it is

difficult to establish pricing guidelines in terms of grading, because of the differences between types of accommodation.

- Objective 4: To draw conclusions about the research, to critically evaluate the findings and to make recommendations based on the research. This was done in Chapter 5. This chapter concludes the findings of the research and uses the research results of Chapters 2, 3 and 4 to design a pricing framework and to make recommendations concerning this topic and further research.

Based on the above-mentioned objectives, the contribution of this study lies in the following:

- Ten factors were identified specifically for the South African accommodation market and reflect the manager's views on factors that influence pricing. A similar combination of factors could not be found, making these ten factors unique to South Africa. These factors are used as determinants of price, and serve as input to design specific price guidelines that will promote competitiveness and profitability.
- A strong correlation was found between price and grading, and this highlights the importance of grading to promote quality in the South African accommodation market.
- Price guidelines which distinguish between prices of guesthouses and hotels were also suggested: a 50-60% increase between stars was suggested for hotels, whereas a 15-25% increase between stars was suggested for guesthouses in South Africa.
- A **pricing framework** is developed, based on the factors, approaches and methods on the supply side of the accommodation industry. This approach was used for the first time in South Africa and can therefore be seen as a benchmark in the South African accommodation market research.
- The methods used in this study add value to the tourism industry and especially to the accommodation market, as it contributes to knowledge about price determinants, grading, price approaches and strategies that South African accommodation managers take into account when setting prices.

5.2. CONCLUSIONS

Below, conclusions are presented regarding the literature review and the surveys which were used in this research (see chapters 1-4).

5.2.1. CONCLUSIONS REGARDING THE LITERATURE STUDY

- The potential of any country to maintain a competitive advantage in any segment will depend on how managers plan and manage sustainable growth in that segment (see chapter 1.1).
- Growth in the demand and supply of accommodation units in South Africa motivate establishments to increase prices, but such a price increase could pose a dilemma for competitiveness (see chapter 1.2).
- Considering the right factors, together with the grading status, is one of challenges in terms of pricing that managers face in the accommodation sector (see chapter 1.1).
- The dynamics of pricing is presented as the inputs from demand (international and domestic market) and supply factors that, together with internal and external aspects, influence a competitive price and result in sustainability (see chapter 1.2).
- The pricing process is made even more complex because prices have different meanings for different role players (see chapter 2.2).
- Pricing a tourism product is a delicate and intricate act, because there are so many factors that could influence this process (see chapter 2.2).
- The motivation (demand) for travel is determined by factors such as the following (see chapter 2.2):
 - Psychographic profile;
 - socio-economic status;
 - demographic variables (population, income, leisure time, education, occupation and family orientation, among many others);
 - cost of transport;
 - relative prices;

- quality of products and services;
 - exchange rate;
 - availability of tourism services and products (entertainment, accommodation, transport, children facilities); and
 - qualitative factors (tourist appeal, image, marketing, promotion and cultural issues).
- The supply factors are identified as follows (see chapter 2.2):
 - Income of service market;
 - relative prices and cost (transport, labour, infrastructure, marketing);
 - exchange rates;
 - cultural events;
 - beauty and quality of natural surroundings (beaches, wildlife, scenic beauty, water resources);
 - climate;
 - accessibility; and
 - environmentally friendly products.
 - Pricing factors represent a wide spectrum of factors that could be divided even further into services (which affect the quality of the tourist stay), location (amenities such as shopping malls, airports, distance from beach, natural surroundings, just to name a few), environmental factors (quality of area and attractions) and infrastructure services (see chapter 2.2).
 - Managers that understand the dynamics of price will be able to make better choices to control and use factors in determining price (see chapter 2.2).
 - Researchers see quality both from the demand and supply side as one of the most important determinants of price, and sustainable competitive advantage could be the direct result of prices that communicate value for money (see chapter 3.2).
 - The grading status and classification of the establishment are often an indication of the relationship between quality and price (see chapter 3.2).
 - A grading system is a good indicator of price and value, but limited research has yet been done concerning these systems (see chapter 3.2):
 - Little research that analyses these systems has been done; and

- it is difficult to measure the value (price and quality) reflected by these grading and classification systems.
- Existing literature indicates that tourists (demand) as well as managers (supply) see a positive relation between grading and price and that they use this relation as an indicator of what quality could be expected of the accommodation (see chapter 3.2.).
- The grading status of an establishment is presented by the literature review as a very important factor to consider when setting competitive prices for accommodation (see chapter 3.2).
- The tourism product consists of accommodation, food, transport, attractions, activities and entertainment; as such, it is difficult for managers to choose a pricing approach for the specific product (see chapter 4.2).
- In an increasingly competitive market, managers of accommodation establishments face difficulties when they are trying to set prices that tourists will perceive as value for money (see chapter 4.2).
- The literature study presented numerous pricing strategies, approaches and techniques managers could use, for example:
 - Cost-based pricing;
 - customer-driven pricing;
 - competition-driven pricing;
 - time as a basis for pricing;
 - almost ideal demand system (AIDS) pricing policy;
 - hedonic pricing model (HPM);
 - all-inclusive pricing;
 - price-ending strategies;
 - price discrimination; and
 - price differentials.

However, in the absence of pricing guidelines in the market of a specific tourism product, managers find it easier to apply “price following” to cope with the complexity of price (see chapter 4.2).

- Absence of pricing guidelines in the accommodation establishments seems to be a problem in South Africa as well, and managers must decide what level of quality can be offered in relation to the price that has been decided on. This price must meet the perception that tourists have of the establishment's grading status, it must offer them value for money, and it must ensure sustainable growth for the establishment (see chapter 4.2).
- Successful pricing is the ability of managers to balance all the forces involved in the process to establish profit and competitiveness and to sustain an advantage (see chapter 4.2).

5.2.2. CONCLUSIONS REGARDING THE SURVEY

The following important findings and conclusions were made in the survey:

The factors that influenced pricing, according to South African accommodation managers, were determined with a factor analysis in Chapter 2 (Article 1). The following ten pricing factors emerged from the results: *Environmental qualities, Amenities, Image, Management, Positioning, Quality service, Infrastructure service, Location, Marketing and Product quality*. The three most important factors, as indicated by the mean values, are **quality service, image and product quality**. It is clear that the needs and perceptions of tourists are taken into consideration when price is being determined by South African managers. The results indicate that managers also take into consideration the growing environmental concerns of tourists – this is demonstrated in the identification of environmental qualities as a determinant of price. A similar combination of variables could not be found in existing literature, which confirms the complexity of price. The ten identified factors are unique to the South African accommodation market.

The above-mentioned results of the factor analysis were used in the second article to determine whether managers in the accommodation sector understand the importance of quality. The relation between grading and price was determined in chapter 3 (Article 2), with the calculation of the Spearman rank order in the correlation analysis. The results show a strong correlation between price and grading and demonstrate that prices are in

correlation with the grading status of the establishment. This study differs from previous studies, which focused only on the grading of hotels. This study also focused on the perceptions of individual managers of different types of accommodation establishments with different grading levels. The strong relationship between grading and price demonstrates that the aim of grading is to ensure quality, to provide value for money and to obtain a competitive advantage.

In order to formulate pricing guidelines that promote competitive advantage, pricing guidelines for the managers of guesthouses and hotels in South Africa were determined in Chapter 4 (Article 3) with the means of an independent *t*-Test. The significance of mean price differences between two, three, four and five star were tested and compared between hotels and guesthouses. The results show a significant difference between the prices of five star hotels (R2,234.25 p/p/n) and five star guesthouses (R516.00 p/p/n). These results were further analysed with price differentials, which indicate the price difference between two, three, four and five star hotels to be 95%; whereas a price difference of 19% was found between two, three, four and five star guesthouses.

It is clear from the above conclusion that the methodology used was systematic and the outcome of one analysis provided motivation and substance to continue with the next. The effectiveness of each analysis is therefore of the utmost importance.

Based on the conclusion of this study, Figure 5.1 illustrates a pricing framework for South African managers to formulate a pricing approach. The framework could assist managers to achieve their primary objective, which is to earn a profit, establish a competitive advantage and to sustain both. Three forces are constantly at work here, namely entrepreneurship, effective management and providing value for money. It is very important that tourism managers should be trained on the pricing process, price determinants (factors that determine price), price strategies, grading and quality control; and also on how they should incorporate the ten factors to establish a competitive price for sustainability. Each manager must decide which combinations of the ten factors are relevant to his/her establishment when price is being determined. This calculated price should correlate with the grading status that has been obtained. Location as a pricing factor would be considered

differently by managers of a four star seaside resort than it is by a four star guesthouse in the Karoo. Choosing the right combination of factors has an impact on the marketing of accommodation establishments, and managers must keep the establishment's grading status in mind as an important tool that promotes the product as value for money. Value for money at affordable prices that are offered to the domestic market can enhance this market's pricing strategy.

Choosing and implementing the right price approach would result in sustainability, competitiveness and profitability, as illustrated in Figure 5.1.

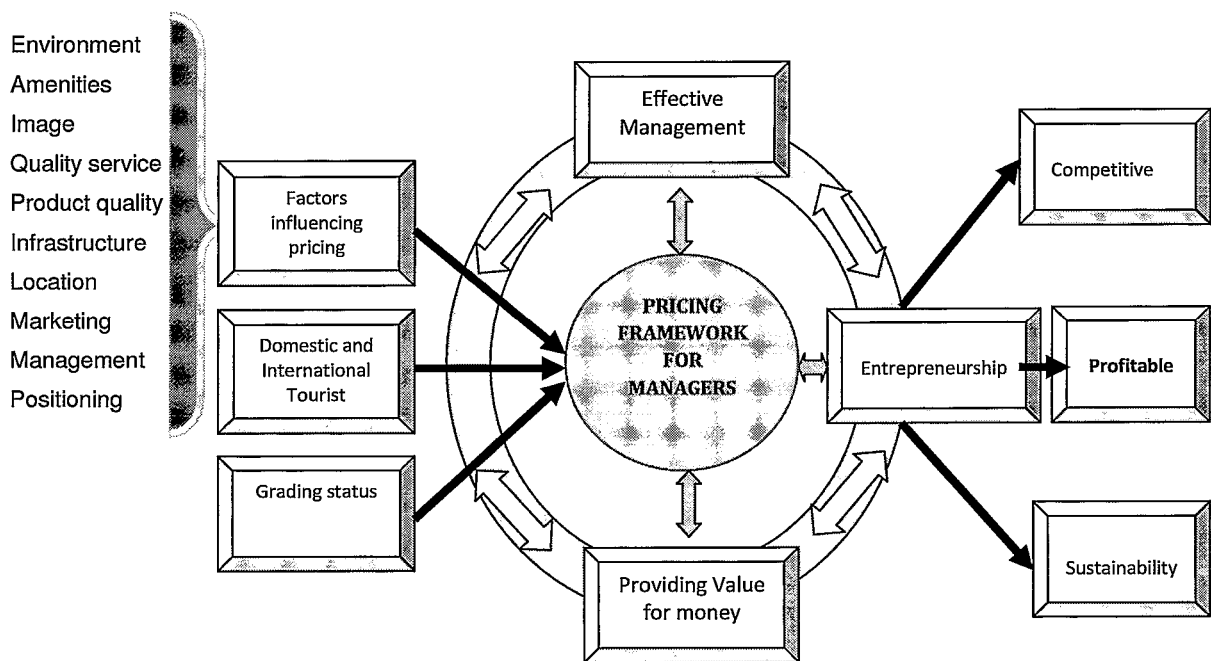


Figure 5.1: Pricing framework for the accommodation sector in South Africa

5.3. RECOMMENDATIONS

Based on the conclusions discussed above and the research results, the following recommendations are made:

- Managers in the South African accommodation market should improve and develop the overall quality with sufficient training, which could result in better prices and secure the sustainability of the facility.
- The importance of new market trends such as environmental concerns, economic conditions and changing demand factors must be realised as future opportunities, along with a potential new target group of tourists.
- From a marketing point of view, managers and other role players in the accommodation sector, such as SATSA, FEDHASA and TGCSA, could use the information from the price framework to enhance their marketing campaign to promote the value for money concept.
- Local tourism authorities should consider it to make the grading of an establishment compulsory, and to provide pricing guidelines that could give South Africa a greater competitive advantage as a destination.
- Partnerships between managers and industry leaders must be an objective to promote training opportunities on how to maintain a standardised pricing structure and how to sustain a competitive advantage as a value-for-money establishment that provides quality services and products.
- It is suggested that a 50-60% price increase between stars for hotels and a 15-25% price increase between stars for guesthouses is considered when prices are determined for South African establishments.

5.4. RECOMMENDATIONS FOR FUTURE RESEARCH

- This research should also be conducted from the demand side, evaluating the tourist's point of view of the pricing of accommodation establishments and the correlation between grading and price in South Africa. This could influence marketing strategies and product development.
- Environmental qualities are identified as a price factor and research concerning the successful implementation and management of environmental policies can give South Africa a competitive advantage as a "green" destination.

- Future research is recommended to evaluate the local grading classifications according to international standards, as this can further ensure South Africa's price competitiveness.
- The tourist's point of view (psychological considerations) of the relationship between grading and price is important and research is needed on tourist satisfaction/dissatisfaction with accommodation establishments. This can provide important insight into product development.
- Further research on pricing policies of the major hotel chains in South Africa could help managers and tourism authorities to develop alternative methods and policies for determining price.
- Lastly, the guidelines provided in this study ought to be tested and evaluated by major accommodation establishments in South Africa, in order to determine their sufficiency.

From the study it is evident that pricing is a complicated management tool, which requires the understanding and skill of managers in the accommodation market in terms of choosing the right factors, grading status and approach to set prices that promote profitability and sustain competitiveness. The combination of factors and the effectiveness and credibility of grading systems should be tested and adapted according to the unique characteristics of every establishment and its manager or owner.

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